Rapid-American Corporation Annual Report -- 1981
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pg. 0_1

1981

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended January 31, 1982 | Commission File number 0-7423

RAPID-AMERICAN CORPORATION
(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	15-0587446 (I.R.S. Employer Identification No.)
888 Seventh Avenue, New York, New York (Address of principal executive offices)	10106 (Zip Code)

Registrant's telephone number, including area code: 212-621-4500

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
7-1/2% Sinking Fund Subordinated Debentures, due May 15, 1985 6% Sinking Fund Subordinated Debentures, due August 15, 1988 7% Subordinated Debentures (1969 Issue), due May 15, 1994 7% Subordinated Debentures (1972 Issue), due May 15, 1994 12% Sinking Fund Subordinated Debentures, due January 15, 1999 10-3/4% Sinking Fund Subordinated Debentures, due December 1, 2003 10-3/4% Sinking Fund Subordinated Debentures, due October 1, 2004 11% Sinking Fund Subordinated Debentures, due October 1, 2005	New York Stock Exchange, Inc. Pacific Stock Exchange, Inc. Cincinnati Stock Exchange, Inc.
10% Sinking Fund Subordinated Debentures, due August 1, 2006 Redeemable Debenture Purchase Warrants, expiring May 15, 1994	Pacific Stock Exchange, Inc. Cincinnati Stock Exchange, Inc.

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark whether registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X No ____

State the aggregate market value of the voting stock held by non-affiliates of the registrant.

None held by non-affiliates.

Indicate the number of shares outstanding of each of registrant's classes of common stock, as of the latest practical date.

Class	Outstanding at April 15, 1982
Common Stock, par value $.01 per share	2,435,607 shares

Documents incorporated by reference.

None

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TABLE OF CONTENTS

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Introductory Note

Registrant, a Delaware corporation formerly named Kenton Corporation ("Kenton"), is the successor to the former Rapid-American Corporation, a Delaware corporation ("Old Rapid"), which was merged (the "Merger") into Registrant on January 31, 1981 at which time the name of Registrant, as the surviving corporation of the Merger, was changed to "Rapid-American Corporation." As a result of the Merger, Registrant became a privately held corporation owned by Riklis Family Corporation and American Financial Corporation ("AFC"). Meshulam Riklis, Chairman of the Board, President and Chief Executive Officer of Registrant, and two trusts for members of Mr. Riklis' family are the sole stockholders of Riklis Family Corporation. See Note 2 to Financial Statements for a description of the terms of the Merger. Although under applicable state law, the Registrant (i.e., the corporation formerly named Kenton) is the surviving corporation of the Merger, for accounting purposes Old Rapid has been treated as having purchased Kenton. All references to "Rapid" in this report include both constituent corporations to the Merger (i.e. Kenton and Old Rapid), and all references to Kenton herein are to Registrant prior to the Merger.

PART I.

Item 1. Business.

GENERAL

Rapid is engaged (a) through its subsidiary, McCrory Corporation (which, together with its subsidiaries and divisions, is sometimes referred to herein as "McCrory"), in retail merchandising, (b) through its subsidiary, Schenley Industries, Inc. (which, together with its subsidiaries, is sometimes referred to herein as "Schenley"), in the production, importation and sale of alcoholic beverages under various brand names, (c) through its subsidiary, McGregor-Doniger Inc. (which, together with its divisions, is sometimes referred to herein as "McGregor"), and certain other divisions and subsidiaries, including Melville Knitwear Co., Inc. ("Melville"), Plastic Toy and Novelty Corp. ("Plastic Toy") and American Recreation Group, Inc. ("ARG"), in the manufacture, distribution and sale of a variety of consumer products (collectively the "Industrial Group"), (d) through its subsidiary, Shenandoah Corporation ("Shenandoah"), in operating a thoroughbred race track, and (e) through its division, International Health Company ("IHC"), in rendering management consulting services with respect to renal dialysis centers.

At January 31, 1982, Rapid and its subsidiaries employed approximately 45,000 persons.

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FINANCING ARRANGEMENTS

Working capital requirements are satisfied from operations and short-term borrowings. Reference is made to Item 7 and Notes 3 and 6 to Financial Statements for a description of various financing arrangements of Rapid and its subsidiaries.

SEGMENT INFORMATION

The following table sets forth the identifiable assets of each major business segment of Rapid at January 31, 1982, 1981 and 1980:

IDENTIFIABLE ASSETS	January 31, 1982	January 31, 1981	January 31, 1980
	(In Millions)		
Retail Merchandising:			
Lerner Stores	$ 273.3	$ 261.2	$ 247.1
McCrory Stores	210.2	206.2	192.8
OTASCO Automotive and Home Accessories Stores	112.7	103.1	111.6
Britts Department Stores and others	7.3	21.3	25.6
Alcoholic Beverages - Schenley	717.8	728.5	774.0
Industrial Group and others	116.7	114.0	110.5
Investments in Non-consolidated Subsidiaries	40.3	35.3	32.6
Other Corporate Assets	89.1	92.1	93.5
Total	$1,567.4	$1,561.7	$1,587.7

Net sales of foreign operations (principally in Canada), export sales, and sales to any individual customer, each represented less than 10% of consolidated net sales. Assets of foreign operations represent less than 10% of consolidated assets.

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The contribution of each of the major business segments to consolidated net sales and operating profit during the years ended January 31, 1982, 1981 and 1980 was as follows:

Net Sales	Year Ended January 31, 1982	1981	1980
	(In Millions)		
Retail Merchandising:			
Lerner Stores	$ 717	$ 686	$ 705
McCrory Stores	762	674	619
OTASCO Automotive and Home Accessories Stores	291	259	256
Britts Department Stores and others	34	50	71
Alcoholic Beverages - Schenley	604	693	746
Industrial Group and others	238	227	207
	$2,646	$2,589	$2,604

Operating Profit (Loss)	1982	1981	1980
Retail Merchandising:			
Lerner Stores	$ 90.0	$ 83.3	$ 96.8
McCrory Stores	50.7	43.4	42.5
OTASCO Automotive and Home Accessories Stores	16.5	18.0	19.2
Britts Department Stores and others	(1.6)	(3.4)	(.5)
Alcoholic Beverages - Schenley	40.9*	47.3	42.0
Industrial Group and others	16.2	(3.2)	5.7
	212.7	185.4	205.7
Unallocated Costs:			
Interest and debt expense	161.3	117.6	122.6
General corporate expenses	31.0	25.0	24.9
Other (income) earned at the corporate level	(10.6)	(6.3)	(4.2)
Equity in (income) loss of non-consolidated subsidiaries, etc.	(2.3)	(1.3)	(.9)
	179.4	135.0	142.4
INCOME FROM OPERATIONS BEFORE INCOME TAXES	$ 33.3	$ 50.4	$ 63.3

* After nonrecurring charge of $6.3 million

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RETAIL MERCHANDISING

At January 31, 1982, McCrory operated through its subsidiary, Lerner Stores Corporation ("Lerner"), 767 apparel specialty stores under the trade names "Lerner Shops", "Lerner" and "Jenny Lane", specializing in the sale of women's and children's apparel; through its McCrory Stores division ("McCrory Stores"), 729 variety stores under various trade names, including "McCrory", "McLellan", "H.L. Green", "J.J. Newberry" and "S.H. Kress"; through its subsidiary, OTASCO, Inc. ("Otasco"), a chain of 277 automotive and home accessories company-owned stores and 374 associate stores serviced by it, all operated under the trade name "OTASCO Stores" and engaged in the retail sale of automotive and home accessories. Gault Brothers, McCrory's Canadian operation, is principally a distributor of general merchandise to retail establishments.

At January 31, 1982, McCrory and its subsidiaries employed approximately 36,000 employees.

Apparel Specialty Stores (Lerner)

Lerner sells at moderate prices, substantially all articles of women's and children's apparel, except shoes. For each of the three years ended January 31, 1982, the merchandise categories set forth below accounted for approximately the following percentages of total store sales of Lerner:

	Year Ended January 31,		
	1982	1981	1980
Sportswear and sweaters	30.2%	29.7%	28.9%
Dresses	16.5	16.5	16.6
Blouses	13.3	13.8	14.7
Underwear and hosiery	11.1	11.6	9.4
Coats and suits	10.7	9.3	8.3
Children's wear	9.0	9.6	10.2
Skirts	4.1	4.4	4.9
All other merchandise	5.1	5.1	7.0

The following table sets forth, for the three years ended January 31, 1982, the number of stores opened, closed, and in operation at the end of each year and the approximate average net sales per store:

Year ended January 31,	Stores opened	Stores closed	Stores in operation at year end	Approximate average net sales per store*
1980	83	11	637	$1,174,000
1981	89	9	717	1,009,000
1982	60	10	767	913,000

* Excluding stores opened or closed during the year. The decline in the average sales per store is primarily due to the smaller size of new stores which have been opened in the last few years and decreases in comparable store sales.

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The stores are located in 45 states, the District of Columbia, Puerto Rico and the Virgin Islands, with the greatest concentration of stores in California, Florida, New York and Texas. Lerner has actively followed the larger shopping center concept of retail distribution, where most of its stores which have been opened in the past 20 years are located. It is anticipated that approximately 40 stores will be opened in the year ending January 31, 1983.

The minimum sales area of any of the stores is approximately 1,400 square feet, the maximum sales area is approximately 24,000 square feet and the average sales area of all the stores is approximately 6,900 square feet; 392 stores have sales areas of under 6,900 square feet and 375 have sales areas in excess of 6,900 square feet. The stores to be opened will have an average sales area of approximately 5,000 square feet. Lerner maintains a policy of modernizing its stores.

The home office, central buying office and major distribution center are located in New York City, and regional distribution centers are located in Atlanta, Georgia; Jacksonville, Florida; Chicago, Illinois; Denver, Colorado; Pittsburgh, Pennsylvania; Los Angeles, California; and Dallas, Texas. Buying is directed centrally, with direct shipment of most merchandise from the vendor to the distribution centers. The greatest portion of the merchandise is purchased in New York City. Merchandise is also purchased through a buying office in Los Angeles. Sales promotion and advertising, directed centrally, are modified to meet the local conditions. Each distribution center services and supervises the stores in its area.

Lerner does not generally enter into long-term purchase contracts nor does it manufacture the products it sells. No supplier accounts for more than 4% of Lerner's purchases.

Lerner participates in bank credit card programs and also offers twelve-month revolving charge accounts, with service charges at rates prevailing locally. At January 31, 1982, credit facilities were available in substantially all of the stores. Credit sales accounted for approximately 18% of net sales for the year ended January 31, 1982.

Lerner has an agreement with Citicorp Retail Services, Inc., pursuant to which it purchases and services Lerner's accounts receivable.

In common with many other retail businesses, the business of Lerner is seasonal, with sales and earnings concentrated primarily in the second half of the fiscal year ending on January 31.

Competition

Lerner is subject to active competition from other apparel merchandising chains and from so-called "discount" organizations selling wearing apparel, as well as from department stores, specialty shops, mail order houses and other retailers. The primary competitive factors are fashion, price and product assortment. Management believes Lerner is the largest retailing chain in the United States specializing exclusively in women's and children's apparel.

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Labor Relations

At January 31, 1982, Lerner had approximately 12,000 employees, some of whom were employed part-time. Temporary employees are added during certain holiday seasons and the peak is reached during the Christmas season. There has been no major interruption or curtailment of operations due to labor controversies in over 20 years. Collective bargaining contracts are in effect in 159 stores and six distribution centers covering approximately 3,000 employees in 14 states. Lerner has non-contributory pension plans covering eligible employees.

Property

Lerner's policy is to lease, whenever practicable, rather than own its premises. Most of the leases do not contain clauses authorizing cancellation by the lessee. At January 31, 1982, with the exception of three distribution centers, four store locations and parts of five others, each of which was owned, all premises were leased. Most of the store leases provide for fixed minimum rentals with additional payments based on percentages of annual sales. Some leases require the lessee to pay property taxes or insurance, or both. The home office, central buying office and distribution center, occupy approximately 395,000 square feet of office and warehouse space in New York City under leases expiring in 2004 renewable to 2024.

McCrory Stores

McCrory Stores sells a broad mix of merchandise, including men's, women's and children's apparel, jewelry, hardware, home furnishings, piece goods, stationery, toys, toilet articles and candy. Restaurants or luncheonettes are operated in 452 stores. McCrory Stores also operates five free-standing restaurants. These restaurants and luncheonettes are an important part of McCrory Stores' business and over the years have been a significant contributor to operating results.

For each of the three years ended January 31, 1982, the categories set forth below accounted for approximately the following percentages of total store sales of McCrory Stores:

	Year Ended January 31,		
	1982	1981	1980
Apparel and accessories	28.9%	29.5%	29.5%
Hardware and home furnishings	14.5	13.6	13.1
Restaurants and luncheonettes	7.9	8.6	9.2
Stationery	7.9	7.6	7.5
Toiletries and beauty aids	7.6	6.8	6.3
Dry goods and domestics	7.4	7.5	7.5
Toys, games and books	6.8	6.0	5.9
Candy	5.1	4.5	4.1
Concessions	4.8	5.2	5.7
All other merchandise	9.1	10.7	11.2

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The following table sets forth, for the three years ended January 31, 1982, the number of stores opened, closed, and in operation at the end of each year and the approximate average net sales per store:

Year ended January 31,	Stores opened	Stores closed	Stores in operation at year end	Approximate average net sales per store (1)
1980	17	34	715	$803,000
1981	69 (2)	31	753	898,000
1982	18	42	729	980,000

(1) Excluding stores opened or closed during the year.
(2) Includes 46 S.H. Kress stores acquired by McCrory Stores on January 1, 1981.

McCrory Stores operates in 37 states and the District of Columbia, with the largest concentration of stores in Pennsylvania, Florida, California and New York. Most of the stores are located in cities and towns having a population of less than 50,000, although the population of the geographical trading area served is generally from three to 10 times larger. A majority of the stores are located in downtown shopping areas; 308 are located in suburban and mall shopping centers and greater emphasis is being placed on suburban shopping centers in the opening of stores.

The management of McCrory Stores has adopted a policy of eliminating unprofitable stores based upon lease expirations, locations and other relevant factors. It is anticipated that during the year ending January 31, 1983, 30 to 35 stores (including 14 J. J. Newberry stores) will be closed and 21 to 25 stores will be opened (which includes 14 Sterling Stores acquired on January 30, 1982 and opened on February 1, 1982). Approximately 7% of the stores in operation at January 31, 1982 (excluding J. J. Newberry stores) operated at a loss during both of the last two fiscal years, before allocating corporate financing and headquarters' administrative expenses and income taxes. On the same basis, approximately 13% of the J. J. Newberry stores operated at a loss during both of the last two fiscal years.

The minimum sales area of any store is approximately 1,800 square feet, the maximum sales area is approximately 72,000 square feet, and the average sales area of all stores is approximately 14,000 square feet; 259 stores have sales areas of under 10,000 square feet; 389 have sales areas from 10,000 to 24,999 square feet; 59 have sales areas from 25,000 to 40,000 square feet; and 22 have sales areas in excess of 40,000 square feet. McCrory Stores maintains a policy of modernizing its stores.

McCrory Stores consists of four operating regions with divisional support functions. Buying is divided into the broad grouping of apparel and variety. The main distribution and buying center for such merchandise is located in York, Pennsylvania, with a buying office for the west coast stores located in Los Angeles, California.

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The main warehouse is maintained at York, Pennsylvania. In addition, relay stations are maintained at Albany, New York; Los Angeles, California; Stockertown, Pennsylvania; Glen Burnie, Maryland; Charlotte, North Carolina; Orlando, Florida; Columbus, Ohio; and York, Pennsylvania, to service the stores in their geographical area.

McCrory Stores does not enter into long-term purchase contracts, nor does it manufacture any of the products it sells. A limited use is made of private brand names. No supplier accounts for more than 5% of McCrory's purchases.

In commmon with many other retail businesses, McCrory Stores' business is seasonal, with sales and earnings concentrated in the fourth fiscal quarter, ending on January 31.

Competition

The business of McCrory Stores is subject to active competition. The principal methods of competition are selection, price, quality, service and, to a lesser extent, style. Identical or similar merchandise to that sold is generally available at approximately the same cost to competitors handling comparable volume. McCrory Stores generally competes with other merchandising outlets selling comparable merchandise in the same geographical area, including chain, drug and other stores which offer a broad product mix, supermarkets, discount stores, hardware stores and numerous other independent local stores. While management of McCrory Stores believes that the stores are generally competitive with other stores in the areas in which they operate, increased competition has been experienced in recent years, particularly from certain nationwide mass merchandising chains.

Labor Relations

At January 31, 1982, McCrory Stores had approximately 21,000 employees, some of whom were employed part-time. During certain seasons as many as 3,000 temporary employees are added; the peak employment is reached during the Christmas season. There has been no substantial interruption or curtailment of operations due to labor controversies in over 10 years.

McCrory Stores has a non-contributory pension plan covering eligible employees.

Property

McCrory Stores' policy is to lease rather than own store premises whenever practicable. Most of the leases do not contain clauses authorizing cancellation by the lessee. At January 31, 1982, with the exception of one warehouse-distribution center, 40 locations and parts of 18 others, each of which was owned, all premises were leased. A number of leases contain provisions for fixed minimum rentals with additional payments based on percentages of annual sales. Some leases require the lessee to pay property taxes or insurance, or both. McCrory owns its main warehouse and distribution center in York, Pennsylvania, which comprises approximately 795,000 square feet.

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Automotive and Home Accessories Stores (OTASCO Stores)

OTASCO sells automotive and home accessories in its company-owned stores in the southeast and southwest United States, and, in addition, supplies merchandise and merchandising aids to its associate stores owned by third parties in the same geographical areas.

Though many products are carried in open displays, self-service is not a feature of OTASCO Stores' business. The stores sell over 7,500 items of merchandise, including tires, batteries, auto accessories and parts, home appliances, sporting goods, hardware, garden supplies, tools and housewares. For the years ended January 31, 1982, 1981 and 1980, sales of major home appliances accounted for approximately 28%, 30% and 29%, respectively, of OTASCO Stores' total sales. Most of the company-owned stores maintain service centers for the installation of replacement auto parts they sell.

The following table sets forth, for the three years ended January 31, 1982, the number of company-owned stores opened, closed and in operation at the end of each year and approximate average net sales per store:

Year ended January 31,	Stores opened	Stores closed	Stores in operation at year end	Approximate average net sales per store *
1980	15	2	261	$700,000
1981	7	2	266	713,000
1982	12	1	277	790,000

* Excluding stores opened or closed during the year.

The locations of the company-owned stores are divided almost equally between downtown areas and urban and suburban shopping centers; the associate stores, with few exceptions, are located in smaller communities. OTASCO Stores is continuously engaged in modernizing older stores. In the opening of company-owned stores, greater emphasis is being placed on strip shopping center locations.

During the year ending January 31, 1983, it is anticipated that eight to 10 company-owned stores will be opened and arrangements will be entered into for approximately 10 associate stores.

Approximately 54% of total sales in company-owned stores are on credit, which are customarily secured by conditional sales contracts. In addition, most company-owned and associate stores participate in bank credit card programs.

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Otasco Credit Corporation ("Credit"), a wholly-owned subsidiary of Otasco, finances Otasco's receivables. Credit has a revolving credit agreement, which expires on July 31, 1984, with a regional group of banks in the aggregate principal amount of $75,000,000, secured by substantially all of Otasco's trade accounts receivable.

OTASCO Stores does not enter into any long-term purchase contracts, nor does it manufacture any of the products it sells. A limited use is made of private brand names. No supplier accounts for more than 10% of Otasco's purchases.

Rapid Muffler, Inc., a wholly-owned subsidiary of Otasco, sells and installs car exhaust systems and shock absorbers. At January 31, 1982, four stores were in operation (three in Tulsa, Oklahoma and one store in Wichita, Kansas) and three stores are planned to be opened in Wichita, Kansas during 1982.

Competition

The business of OTASCO Stores is subject to active competition from mass merchandisers, tire company outlets, various department stores, major appliance stores, variety stores, home and auto stores and sporting goods stores. The primary competitive factors are price, location, selection and service. Management believes that OTASCO Stores is competitive with other stores in the geographical areas in which it operates.

Labor Relations

At January 31, 1982, OTASCO Stores had approximately 2,800 employees. During certain seasons temporary employees are added and the peak employment is approximately 4,000 during the Christmas season. Labor relations are considered to be good, except that the employees of the Tulsa, Oklahoma warehouse were on strike from February 21, 1980 through March 5, 1980.

OTASCO Stores has a non-contributory profit-sharing retirement plan covering eligible employees.

Property

OTASCO Stores' executive offices and warehouse, located in Tulsa, Oklahoma, occupy a 500,000 square foot facility (which has been leased through 2003) situated on a 28-acre site which provides for future expansion. This facility includes approximately 61,000 square feet of offices. The office and warehouse in Little Rock, Arkansas containing 129,400 square feet of floor space, including loading docks, are leased through 1990. OTASCO Stores' warehouse and offices in Atlanta, Georgia occupy a building, which has been leased through 1989, containing 148,000 square feet of floor space, including loading docks. The office and warehouse which OTASCO Stores has leased through December 1987 in Meridian, Mississippi contain 166,400 square feet of floor space, including loading docks. Public warehouse space is leased in major market areas for short periods as seasonal demands require.

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Otasco's policy is to lease rather than own store premises whenever possible. All company-owned stores, except one, are in leased locations and in some instances are subject to more than one lease. Most of the leases do not contain clauses authorizing cancellation by the lessee. Most of the downtown store leases are at fixed rentals, while most of the shopping center leases provide for additional rentals based on percentages of annual sales. A few leases require the tenant to pay property taxes or insurance, or both.

Canadian Operation

Gault Brothers, McCrory's Canadian operation, is principally a distributor of general merchandise to retail establishments. Gault leases, through 1995, a 96,000 square foot warehouse in Vancouver, Canada, partially used for manufacturing operations. At January 31, 1982, Gault employed approximately 100 persons.

Britts Department Stores

See Note 8 to Financial Statements.

S. Klein

See Note 8 to Financial Statements.

Miscellaneous

Substantially increased construction costs (including interest), zoning restrictions and ecological considerations, possible changes in shopping habits in the event of further increases in energy costs or possible shortages and certain other factors affecting the development of regional shopping centers have had, or may have, an effect on the rate of construction and expansion of large shopping centers and have resulted in significant increases in shopping center rentals. These factors may affect the nature and rate of expansion of certain McCrory operations, particularly Lerner.

ALCOHOLIC BEVERAGES

Schenley is engaged in the production, importation and sale of alcoholic beverages, including whiskies, gins, vodkas, rums, brandies, wines, liqueurs, cordials and specialties.

In the year ended January 31, 1982, the five largest contributors to Schenley's operating income were Dewar's White Label Scotch whisky, Old Charter, Ancient Age and Ancient Ancient Age bourbon whiskies and Coronet brandy. Dewar's White Label Scotch whisky has been distributed under contracts which have been renewed from time to time since 1936, the latest of which extends to March 31, 1984.

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Products

Schenley sells domestic alcoholic beverages under a number of brands owned by it, and sells imported alcoholic beverages under brands owned by it or for which it has United States, and in some cases overseas, distribution rights.

Domestic Alcoholic Beverages - Brands of domestic whiskies owned by Schenley include Ancient Age, Ancient Ancient Age, J. W. Dant, I. W. Harper and Old Charter bourbon whiskies and George Dickel Tennessee whisky. Schenley's principal brands of blended whiskies are Schenley Reserve and J. W. Dant. Schenley owns several brands of domestic gins (including Schenley and J. W. Dant), brandies (including Coronet and J. Bavet), vodkas (including Samovar, Schenley and J. W. Dant), DuBouchett cordials, prepared cocktails (including Cocktails for Two), and other domestic spirit beverages. Schenley owns the Dubonnet brand in the U.S. and owns and distributes Cruzan, Old St. Croix and Ron Carioca rums from the Virgin Islands.

Imported Alcoholic Beverages - Brands of imported beverages owned by Schenley or its foreign affiliates include J. W. Dant and Park & Tilford Scotch whiskies; MacNaughton and J. W. Dant Canadian whiskies; Ole tequila; Fratelli Lambrusco and Siglo wines and Cruz Garcia Real Sangria. Brands of imported alcoholic beverages for which Schenley has United States distribution rights include Dewar's White Label and Dewar's 12 Scotch whiskies, Dewar's Malt Scotch whisky and Peter Dawson "Special" Scotch whisky; OFC and Grande Canadian Canadian whiskies; Power's Gold Label Irish whisky; Plymouth gin; Mateus wine; the Stock line of vermouth, brandy and cordials; Asbach Uralt brandy; Glayva Scotch liqueur; Charles Heidsieck champagne; Lillet aperitif; and Ackerman-Laurance, Joseph Drouhin, Fontanafredda, Hugel, La Cour Pavillon, Lamberti, Melini, and Delas Freres wines. The earliest expiration date of any agreement for distribution rights in the United States is May 31, 1982 and the latest expiration date is September 24, 2003.

The following table sets forth the approximate percentage of total case sales represented by the principal categories of alcoholic beverages sold by Schenley in the United States during each of the three years ended January 31, 1982. Each principal category has been profitable. However, Schenley's profits on the sale of straight whiskies and Scotch whiskies generally are higher than on the sales of its other products. Approximately 49% of Schenley's case sales in the United States are of imported products, principally Scotch and Canadian whiskies and wines from Portugal.

	Year Ended January 31,		
	1982	1981	1980
Straight whiskies	24.7%	25.0%	25.2%
Scotch whiskies	20.3	17.0	18.7
Wines	18.1	19.0	17.6
Gins and vodkas	9.4	10.9	11.9
Canadian whiskies	8.5	7.8	7.6
Blended whiskies	3.2	3.3	3.4
Rums, brandies, cocktails, cordials, etc.	15.8	17.0	15.6

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Distribution and Marketing

In the domestic market, 18 states and Montgomery County, Maryland have established liquor distribution systems under which sales of alcoholic beverages are made directly through their liquor control boards and commissions. Schenley sells to all of these boards and commissions. In the remaining 32 open states and in the District of Columbia, Schenley sells through conventional distribution channels, principally to outside wholesalers. For several years prior to the year ended January 31, 1981 Schenley also distributed its products in certain markets through its wholly-owned wholesale houses. At January 31, 1982, Schenley was selling directly to the retail trade in only one market, through a division of its principal sales subsidiary. In the year ended January 31, 1982, no wholesale distributor accounted for more than 4% and no state control board accounted for more than 3.4% of total cases sold. The greater portion of Schenley's sales are made in the open states.

Schenley advertises its products extensively, using various media, including magazines, newspapers, outdoor signs, and posters and point-of-sale promotional material, and, in addition, radio and television for wines and beer. Advertising and promotional activities in the industry are, however, subject to regulation under Federal, state and local laws and regulations, which vary considerably, and concern, among other things, permissible media and content. In certain media, advertising of distilled spirits is not accepted as a matter of policy. Schenley utilizes six independent advertising agencies, and also places outdoor advertising through an agency owned by it. In the years ended January 31, 1982, 1981 and 1980 Schenley spent approximately $51,000,000, $46,000,000 and $41,000,000, respectively, for advertising.

Foreign Operations

Schenley sold its wholly-owned subsidiaries in Canada, effective as of October 1, 1981. As part of the sale, Schenley Canada Inc. (a now unrelated party) set aside inventories for Schenley of Canadian whisky in bulk, for future bottling in Canada and subsequent importation and distribution in the United States. In addition, Schenley entered into a long-term supply contract with Schenley Canada Inc., pursuant to which Schenley Canada will supply Canadian whisky to Schenley for sale in the United States. Schenley owns a 49.3% interest in AGE Bodegas Unidas, S.A., a Spanish company. See "Property" below for the plants and properties owned by the Spanish affiliate. Schenley maintains sales personnel in five countries outside of the United States.

Major trademarks of Schenley are registered in various countries. Trademark licensing agreements are in effect with customers in 11 foreign countries and overseas territories, who produce products under these trademarks on a royalty basis. Other trademark licensing agreements are in effect with customers in 14 foreign countries, and overseas territories and dependencies on a royalty-free basis where the bulk goods required for bottling are purchased from Schenley. The sales of Schenley to, and revenues derived from, these customers in foreign countries are not material.

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Competition

The alcoholic beverage industry is highly competitive and Schenley competes with both domestic and foreign companies. In the United States market there are many competitors, a number of which market both distilled spirits and wines. Competition is principally on the basis of price and product quality, with advertising an important factor. The management of Schenley believes that its products are generally competitive with respect to these factors.

Inventories and Raw Materials

Straight whiskies, to be designated as such under applicable regulations, must be aged for at least two years in new charred white oak barrels. Schenley and other distillers age their whiskies for four years or more. As a result, inventories in the industry are larger in relation to sales and to total assets than would be normal for many other businesses. Production is scheduled to meet the anticipated demand four years or more in the future.

The principal supplies and materials used in the production of Schenley's products are grains, molasses, white oak for barrels, flavoring and bottling supplies. Schenley purchases its grains and the other materials from numerous sources. Schenley is in the process of phasing-out the production of its own barrels. Since many of the raw materials used in the production of Schenley's alcoholic beverages are agricultural products, prices and costs are subject to the influences common to those products, including climate and governmental influences on production and marketing. Schenley purchases its requirements of bottles and other packaging materials from various manufacturers and distributors.

Regulation and Taxation

The alcoholic beverage industry is subject to Federal and state legislation and to the rules and regulations of Federal agencies and various state and local agencies. Such regulations cover almost every aspect of the business, including production facilities, labels, packaging, advertising and marketing.

Many states require advance filing or publication of prices to wholesalers, retailers or consumers, resulting in time lags of varying lengths before prices can be changed. Twenty states have adopted laws or regulations requiring distillers to affirm that prices charged in the state are no higher than corresponding prices charged in any other state. States in which alcoholic beverages are distributed through state agencies have, for many years, required suppliers to make similar warranties. Several states regulate the mark-up which may be made at the wholesale or retail level, or both. In addition, the laws of certain states permit counties and townships, by local option, to elect to prohibit or restrict the sale of alcoholic beverages in whole or in part. Production and sales also are subject to varying types of regulation, licensing and supervision in other countries.

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The Bureau of Alcohol, Tobacco and Firearms of the United States Treasury Department has been conducting investigations of a large number of companies in the industry, including Schenley, on a nationwide basis. The Schenley investigation began in March 1979, and there is no indication of when it will be completed or what action, if any, may be taken.

The products sold by Schenley are subject to Federal excise taxes on distilled spirits and wines as well as varying Federal Customs duties on imports. Under the provisions of the Trade Agreements Act of 1979, particularly Title VIII thereof, significant changes in the method of Federal taxation and plant operation have been made.

The rate of Federal excise tax on all distilled spirits has been $10.50 a proof gallon. Distilled spirits are subject to other excise taxes, the most important of which are state gallonage taxes, varying in amount from $1.50 to $4.75 a wine gallon.

Imported distilled spirits and wines are also subject to Customs duties at varying rates. The principal Customs duties applicable to products imported by Schenley for the calendar year 1982 are as follows: 39 cents a proof gallon on bottled or bulk Scotch and Irish whiskies, (down from 43 cents a proof gallon in 1981), 48 cents a proof gallon on bottled or bulk Canadian whiskey (down from 53 cents a proof gallon in 1981) and 50 cents a proof gallon on Gin from the United Kingdom and Germany (same rate as in 1981). The rate of duty on brandies varies in the case of bottled goods on the value of the product per gallon and is calculated at a lower rate on bulk brandy than on the bottled product. Rates of duty on whisky and brandy will be reduced in annual stages through 1987.

Other changes made by the Trade Agreements Act provide that the time within which the tax on distilled spirits shall be paid will be extended in annual stages of five days each from the original period of 15 days to 30 days. In the calendar year 1981, there was a 25-day period for payment, and commencing with the calendar year 1982, there is a 30-day period for payment, which will continue for subsequent years.

The entire structure of the law with respect to the establishment and operation of distilled spirits plants has been changed so as to provide for what is described as an "All-in-Bond" system. Under such system, the entire premises of a distilled spirits plant are treated as bonded premises, with certain exceptions. There is now less direct governmental supervision, with respect to operations, plant security and related matters. However, the government plans to institute a post-audit system for verifying proprietors' compliance with the law and regulations.

Employees

At January 31, 1982 Schenley employed approximately 3,000 people in the United States and approximately 400 people in other countries.

Schenley has contracts covering wages, hours of employment, working conditions and related matters with a number of labor unions, expiring at

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various dates to February 28, 1985, covering substantially all of the hourly-rated and certain of the salaried employees in the United States. Schenley maintains non-contributory pension plans and other benefit plans, contributory and non-contributory, for its employees, and contributes to union pension and welfare plans.

In general, labor relations have been satisfactory and there have been no strikes in recent years that had a material effect on Schenley's overall business.

Property

Schenley operates seven plants for the production of distilled alcoholic beverages. These plants have an aggregate daily distilling capacity of approximately 143,000 proof gallons of whiskey or distilled spirits; facilities for bottling under normal conditions an aggregate of approximately 67,000 standard cases of product in an eight-hour day; and storage facilities for a total of approximately 2,300,000 barrels of aged and aging distilled spirits. Schenley's partially-owned Spanish affiliate operates wineries with an aggregate daily production capacity of 23,700 cases. In addition, Schenley owns two inactive plants. Facilities have been completed at the Schenley Lawrenceburg, Indiana plant for the production of gasohol with a daily capacity of 20,400 wine gallons at 200 proof. During 1981, Schenley acquired two commercial buildings in New York City containing approximately 290,000 square feet to provide space for executive, administrative and sales functions.

The principal domestic whiskey plants are located at Lawrenceburg, Indiana; Frankfort and Louisville, Kentucky; Schenley, Pennsylvania; Tullahoma, Tennessee; and Fresno, California (scheduled to be phased out during the year ending January 31, 1983). A cooperage plant is located at Louisville, Kentucky (which is in the process of being phased-out). Schenley has a plant for the distillation of rum in the United States Virgin Islands.

Schenley owns all of its distilleries and plants. They are generally of sound construction, and, except for the inactive plants, are adequately equipped for carrying on Schenley's business and are generally in good operating condition.

Environment

Schenley's plants are subject to Federal, state and local pollution control regulations. Schenley is presently in full compliance with such regulations at all its plants in the continental United States and has not received any indication to the contrary from governmental authorities. No major capital expenditures for pollution control compliance are anticipated for these plants for the forseeable future. Subject to the effect of inflationary pressures on costs, the operating expenditures for such pollution control facilities are within reasonable limits and not material.

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A wholly-owned subsidiary of Schenley, Virgin Islands Rum Industries, Ltd. ("VIRlL"), owns and operates a rum distillery in the United States Virgin Islands. The wastes from rum distillation are, and have for many years been, discharged directly into the ocean some 1,800 feet off the south shore of St. Croix. Accordingly, the disposition of these wastes is subject to regulation under the Federal Water Pollution Control Act. In 1975, VIRIL challenged the restrictive effluent limitations included in a discharge permit issued by the U.S. Environmental Protection Agency ("EPA"). A hearing on the matter commenced in July 1977, but has remained in recess since that time.

In September 1979, VIRIL, EPA, and the Virgin Islands Department of Conservation and Cultural Affairs (the local agency responsible for enviromental preservation) entered into a tentative agreement under which VIRIL would construct, and place in operation by early 1983, an anaerobic waste treatment facility at a projected cost of $3,500,000. The agreement also barred any attempt to impose civil or criminal penalties on VIRIL on account of its prior discharges. Although the Stipulation of Settlement was never executed until November 1981, all three parties acted as if it had been. During the interim, VIRIL acquired land for the treatment facility, hired a consulting engineer, and solicited and received bids for construction of the facility. On July 13, 1981 VIRIL filed a Request for Reconsideration with EPA, arguing in essence that it ought not to be required to build the treatment facility because its effluent did not harm the environment. In December 1981, the Request for Reconsideration was supplemented, among other things, by arguments that VIRIL's competitive and economic circumstances had changed materially since 1979.

The EPA still has the matter under advisement. On April 9, 1982, the Agency published a notice in the Federal Register calling for public comment on the pending VIRIL Request for Reconsideration and setting May 24, 1982, as the date such comments will be due. VIRIL has also requested that EPA give it assurances that discharges during the pendency of VIRIL's Request for Reconsideration will not be considered in violation of Federal law.

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McGregor

Through McGregor, Rapid's Industrial Group manufactures (a) men's clothing, in several price ranges, including popular priced and medium priced suits and sport coats sold by the Botany '500' and Cross Country Divisions, under private labels and under the trademarks "Botany", "Botany '500' ", "Cartier", "Worsted-Tex", "Fashion Park", "Stein Bloch", "Broadstreet's" and "Coat Tails"; (b) men's, women's and boys' shirts, sport shirts, screen-print shirts and ties sold by the Wonderknit, Beau Brummell, Bert Pulitzer and Botany Shirt Divisions under such trademarks as "Wonderknit", "Ramrod", "New Era", "Botany", "Botany '500'", "500", "Anvil", "Ched", "Manfredo", "Ruggers", "St. Andrews", "The Livingston Tennessee Shirt Company", "Beau Brummell", "Saddle Club", "Paco Rabanne", "Bronzini" and "Bert Pulitzer"; and (c) ladies' lingerie, sleep wear and undergarments sold by the Gilead Division under the "Gilead" and "Gillies" trademarks. In addition, McGregor licenses others to use the "McGregor" trademark and certain other trademarks.

Sales and Distribution

McGregor sells directly to retail outlets throughout the United States through its own sales organizations. McGregor advertises in national and trade magazines and newspapers, and through printed material used in retail outlets. The Botany '500' division advertises on television and radio and in consumer newspapers and national magazines. McGregor uses cooperative advertising for its trademarked goods.

Trademarks are an important selling aid for the industrial group. The trademarks "Botany", "Botany '500'", "McGregor", "Bert Pulitzer" and a number of others are registered in the United States and in many foreign countries. McGregor has an established licensing program, under which it licenses the right to use "McGregor", "Botany '500'", "Drizzler", "Bernhard Altmann" and other trademarks to foreign manufacturers, who produce sportswear and other merchandise under these trademarks for sale in their own and other authorized countries. Under this program, McGregor also furnishes designs, patterns, engineering and other manufacturing and promotional services to its foreign licensees. McGregor also licenses its "McGregor" and other trademarks to domestic manufacturers for men's shirts, sweaters, outerwear, slacks and pajamas, children's outerwear, boys' wear, men's and boys' ties and scarves and men's and ladies' footwear. McGregor has domestic licensing agreements pursuant to which it licenses, on a royalty basis, the production and sale by others under the Botany trademarks of men's and boys' hats and caps, neckwear, scarves, belts, handkerchiefs, pajamas and robes, men's shirts, raincoats and outdoor coats, small leather accessories, hosiery and other products. It also has licensing agreements with manufacturers in many foreign countries pursuant to which it licenses, on a royalty basis, the production and sale of men's tailored clothing, sportwear for men, women and children and other apparel products under the Botany trademarks.

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Raw Materials

Certain operations of McGregor use both knit and woven cloth in the manufacture of apparel. Wonderknit has a knitting mill where most of the various types of knitted cloth required in its garment manufacturing operations are fabricated in their entirety from yarn to finished product. Wonderknit's knitwear operation purchases its yarn requirements from domestic sources and knits and finishes approximately 95% of its cloth requirements. Other McGregor operations purchase their finished cloth requirements primarily from domestic suppliers. Certain of these operations also import finished garments, primarily from the Far East, for sale to retailers.

McGregor's menswear divisions purchase the greatest portion of their clothing fabric (100% wool worsted, 100% wool, wool and synthetic fibre blend, and all synthetic fibre fabrics) from domestic suppliers. No supplier accounted for more than 5% of material purchased by McGregor.

Employees

At January 31, 1982, McGregor employed approximately 4,900 persons. Approximately 43% of the production employees, together with certain other employees, are covered by collective bargaining agreements and several divisions and subsidiaries maintain pension, profit-sharing and other benefit plans for their employees and contribute to union pension and welfare plans. Labor relations have been harmonious and there have been no major work stoppages in recent years.

Competition

McGregor faces active competition with respect to all of the consumer products which it manufactures and sells. The principal methods of competition include price, product quality and performance, ability to meet shipment schedules, selling and servicing the trade, direct and indirect advertising to the consumer, and the utilization of special promotional programs to deal with particular requirements, opportunities or market segments. The management of McGregor believes it is generally competitive with respect to these factors.

Management believes, on the basis of available information, that McGregor is one of the largest manufacturers of men's tailored clothing not directly affiliated with any men's clothing retailer.

Property

McGregor operates 16 manufacturing facilities in the United States of which seven, containing approximately 820,000 square feet of space, are owned, and nine, containing approximately 850,000 square feet of space, are leased. McGregor also operates a number of sales offices and distribution centers. Management believes that McGregor's manufacturing facilities and equipment are capable of meeting operating requirements in peak periods.

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Melville

Melville is engaged in the manufacture and wholesale distribution of women's and misses' sportswear (principally knitted tops) designed to retail in the moderate to low price range.

Sales and Distribution

Melville sells principally to department stores, retail specialty shops and mail order organizations. Since its products are primarily associated with the colder months, Melville's sales are seasonal; the months of May through October are the stronger months as retailers make purchases in advance of the fall. Sales are made by four employees and 10 commissioned sales representatives. The products are not sold under any trademark. Although Melville sells to a large number of customers, it is dependent on a few of them for a substantial portion of its sales. During each of the past three fiscal years, five to seven of Melville's largest customers (including Lerner) accounted for more than 62% and for as much as 82% of its sales. In the opinion of management, Melville's relationship with its principal customers is good. However, the loss of any one of such customers could have an adverse effect on Melville's operations.

Raw Materials

Melville purchases yarn which it knits, dyes and sews into finished garments at its facilities in New York and North Carolina. Approximately 50% of the products sold are manufactured in foreign countries, principally Hong Kong, Taiwan and South Korea. In view of the foregoing, the regulations concerning import quotas on such products and any new regulations such as increased tariffs and duties could have an adverse effect on Melville.

Employees

Since Melville's business is seasonal, the number of employees vary, with an average of approximately 300 people being employed during the year. None of Melville's employees is covered by collective bargaining agreements.

Competition

The women's apparel business is very competitive and no single firm accounts for more than a small percentage of total industry sales. Melville is not a significant factor in the industry.

Property

Melville owns manufacturing facilities in North Carolina and New York. Its principal plant is situated on approximately 15 acres of land in Waxhaw, North Carolina. The plant consists of a one-story concrete block building

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containing approximately 75,000 square feet of floor space; it is also used as a distribution center. Another building of approximately 50,000 square feet on the Waxhaw site is also utilized for warehousing and distribution. Additional manufacturing, warehousing and distribution activities are conducted in Monroe, North Carolina where Melville owns a one-story brick building containing approximately 97,000 square feet and located on an area of approximately five acres. Approximately 30,000 square feet of the Monroe building is leased to an unaffiliated tenant. Manufacturing operations are also carried on in two buildings owned by Melville with an aggregate of approximately 40,000 square feet in Port Jervis, New York. Melville's principal office is located in Lynbrook, New York where it leases approximately 3,000 square feet, and it maintains showroom space in New York City.

Plastic Toy

Plastic Toy manufactures and distributes a variety of plastic toys and novelty items, principally for children six months to eight years old. Sales by Plastic Toy are principally made to wholesalers and jobbers, retail discount chains, mass marketing concerns and retail toy stores.

Sales and Distribution

Plastic Toy's business is seasonal, a large portion of its sales are for sand toys shipped in late winter and early spring. Other products are sold in the fall for Christmas.

No patents, licenses, franchises or concessions are owned by Plastic Toy in connection with toy operations. Many of its products are sold under the registered trademark "PT&N".

During the fiscal year ended January 31, 1982, the largest customer of Plastic Toy accounted for approximately 18% of its total sales. Management believes that the loss of this customer would have an adverse effect on the business of Plastic Toy. No other customer accounted for more than five percent of total sales.

Raw Materials

The principal raw materials used by Plastic Toy in the manufacture of finished products are high density polyethylene plastic pellets, commonly called "powder". Plastic Toy purchases the powder, the principal portion of which is shipped directly, and sold by Plastic Toy, to contract molders who mold the toy parts using molds designed and owned by Plastic Toy. The molded parts are then sold and shipped to Plastic Toy which then finishes, decorates, assembles, packages, stores, sells and ships the finished product to its customers. There are many suppliers of powder and many molders of plastic products.

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Employees

Approximately 90 people are employed on a full time basis by Plastic Toy, of which approximately 80 people are covered by a union contract which expires on December 31, 1982. Additional employees are added during periods of peak production. In general, labor relations have been satisfactory and there have been no strikes in recent years.

Competition

The toy business is highly competitive. Plastic Toy's sales do not account for a significant portion of the total volume of wholesale toy sales in the United States.

Property

Plastic Toy's manufacturing, warehousing and office operations are centralized in a leased facility aggregating approximately 100,000 square feet, located in New York City.

ARG

ARG is engaged in the distribution of bicycles, bicycle parts and accessories through its two divisions, Cycle Products ("Cycle") and Service Cycle Supply ("Service"). Cycle and Service are distributors of bicycle horns, mirrors, tires, seats, lights, reflectors, pumps and other similar accessories as well as bicycle parts. In addition, Service distributes high quality bicycles which include the "Vista" brand which is imported from the Far East and certain other name brand bicycles which are manufactured domestically.

Sales and Distribution

Cycle markets its products nationally, under the tradestyles "Cycle", "Bike Extra", and "Team Cycle", primarily from warehouses located in Emigsville, Pennsylvania; Memphis, Tennessee; and Fairfield, California. Cycle currently has approximately 250 customers, including national and regional chain stores, mass merchandisers and distributors. During the twelve months ended January 31, 1982, Cycle's four largest customers accounted for approximately 25% of its total sales. Management believes that the loss of any one of these customers would have an adverse effect on Cycle's business. Cycle's sales are made primarily through outside sales organizations.

Service, operating primarily from a distribution facility in Commack, New York, markets its products to independent bicycle dealers and repair establishments in the Northeastern United States. Service currently sells its bicycles, bicycle parts and accessories to approximately 800 customers, none of which accounted for more than 2% of total sales during the twelve months ended January 31, 1982. Service's sales are made primarily through its own personnel.

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Raw Materials

Approximately 75% of the products distributed by Cycle and Service are imported from Japan and other Far East countries. Executives of Cycle and Service perform substantially all of the functions connected with foreign purchases made by those divisions and the importation of their products into the United States.

Employees

Approximately 125 people are employed on a full-time basis by Cycle and Service, of which approximately 50 people are covered by union contracts which expire at various times through January 1985. Additional employees are added during peak periods. In general, labor relations have been satisfactory and there have been no significant work stoppages in recent years.

Competition

Cycle and Service are in a competitive business. Management believes that ARG is one of the larger distributors of bicycle parts and accessories in the United States.

Property

Cycle leases and operates three distribution and warehouse facilities in the United States containing approximately 330,000 square feet of space.

Service's office, warehousing and distribution operations are centralized in a leased facility of approximately 60,000 square feet, located in Commack, New York.

SHENANDOAH

Shenandoah conducts thoroughbred horse racing with facilities for pari-mutuel wagering at Charles Town Race Course and Shenandoah Downs Race Track (the "Tracks") in Charles Town, West Virginia, as well as other business activities incidental to such racing.

Revenues

The Tracks' revenues are derived from wagering activities and from non-wagering sources such as admissions, parking, food concessions and the sale of programs. The Tracks' revenues from wagering are dependent upon (i) the total amount wagered and (ii) the percentage of the pari-mutuel pool which the Tracks are entitled to retain, which is determined by the West Virginia Legislature. Among the factors which influence the aggregate amount wagered is the number of racing dates permitted and attendance at the Tracks.

No material part of the racing operations is dependent upon a single customer or very few customers.

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Employees

Approximately 80 persons are employed on a full time basis by the Tracks and during the time that racing is conducted, approximately 400 persons are employed. Approximately 150 of these employees are represented by a union, under a contract which expires on December 31, 1982. In general, labor relations have been satisfactory and there have been no strikes in recent years.

Competition

Racing operations are affected by the competition of other thoroughbred and harness race tracks in Maryland and Pennsylvania. At the present time there are no race tracks in Virginia. The establishment of a race track in Virginia proximate to the Tracks or in their drawing area could have a significant adverse competitive effect on the business of the Tracks. In addition to the foregoing, the volume of business of the Tracks is affected by a variety of other factors, such as the racing dates granted, weather conditions during race meetings and general business conditions.

Regulations

The racing activities of Shenandoah are regulated by the West Virginia Racing Commission (the "Commission"). Among the responsibilities of the Commission is the determination of the dates on which Shenandoah may conduct race meetings and the licensing of employees at the Tracks. Shenandoah must apply annually to the Commission for a license to conduct horse race meetings during the following year, and the Commission, in granting the license, specifies the dates on which races may be conducted, subject to variation at Shenandoah's request with the consent of the Commission. Recent legislation in West Virginia has increased the Tracks' percentage of the pari-mutual pool. Shenandoah anticipates that during 1982 racing will be conducted on 237 dates, and it is expected that all racing dates will be held at the Charles Town Race Course.

Property

Charles Town Race Course is situated on approximately 200 acres of land. Shenandoah owns the land and the structures on the land, subject to a mortgage. The racing plant of Charles Town Race Course consists of a three-quarter mile track with a grandstand and a clubhouse, both of which have betting mezzanines. The grandstand, which is glass enclosed and heated, seats approximately 3,400 persons and the clubhouse, the principal portion of which is glass enclosed, heated and air-conditioned, seats approximately 2,000 persons, including about 1,500 patrons in a restaurant from which spectators can watch the races while dining. Approximately 9,000 persons can be accommodated on the ramp located in front of the clubhouse and grandstand. Facilities include stables, tack rooms, paddocks, jockeys' quarters and recreation facilities, veterinarian and first aid facilities, a horsemen's restaurant and a building containing sanitary facilities for the stable area

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employees. The parking facilities accommodate approximately 4,500 automobiles.

Shenandoah Downs is situated on approximately 155 acres owned by Shenandoah adjacent to Charles Town Race Course. The five-eighths mile track at Shenandoah Downs is currently utilized as a training facility. The grandstand and clubhouse can seat an aggregate of 4,800 people and a ramp in front of the grandstand and clubhouse can accommodate approximately 9,000 persons and there are complete facilities for the horsemen and parking areas. The stable areas at the Tracks can accommodate a total of approximately 1,500 horses.

IHC

IHC presently renders management consulting services to two special purpose medical centers which provide artificial kidney treatment on an out-patient basis. Treatments at these centers are performed by teams of licensed nurses and trained technicians under the supervision of physicians who are either present or on call for each shift.

IHC provides each center with services, including complying with appropriate regulations, standardized accounting and reporting forms and procedures, and administration of billing and third-party or governmental reimbursement.

The fees paid to IHC for its consulting services at one facility is a fee per dialysis treatment, and for the other facility the fee is substantially all of the revenues generated less the expenses thereof.

Substantially all of the fees for dialysis services are funded under the End-Stage Renal Disease Program of Medicare as administered by the United States Department of Health and Human Services. The balance of the fees are paid by the patients directly, through private insurance coverage or other federal or state funding programs.

The facilities are subject to comprehensive federal, state and local governmental regulation, inspection, licensing and approval. It is expected that governmental regulation of medical care facilities and operations will become more wide-spread and comprehensive in the future. Changes in applicable statutes, ordinances, rules and regulations could require changes in the facilities, equipment, modes of operations, personnel, services and rates, which might have an adverse effect on IHC's operations and earnings.

ILC INDUSTRIES, INC.

See Note 3 to Financial Statements.

Item 2. Properties.

Rapid leases approximately 300,000 square feet of office space at 888 Seventh Avenue, New York, New York (under a lease expiring in 1995), of which

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Rapid and certain of its subsidiaries occupy approximately 155,000 square feet for executive and administrative offices for itself and certain of its subsidiaries and has subleased the balance. Rapid has leased approximately 100,000 square feet of office space at 645 Fifth Avenue, New York, New York (under a lease expiring in the year 2000), which has been subleased. McCrory leases approximately 139,400 square feet of space at 360 Park Avenue South, New York, New York, pursuant to a lease expiring in 1990. McCrory has subleased this space through 1983 (renewable through 1990).

In September 1981, Rapid purchased the former S. Klein property on 14th Street, New York, New York for approximately $14,000,000 in cash and notes, payable over four years. Simultaneously with such purchase, McCrory's lease for such property was cancelled. Rapid is studying plans for developing this property.

Reference is made to Item 1 for information concerning other physical properties of Rapid and its subsidiaries.

Item 3. Legal Proceedings.

Various legal proceedings are pending relating to transactions in which Rapid or its subsidiaries have been involved. These lawsuits have been brought against various defendants, including Rapid, its subsidiaries and predecessors, and certain of their officers and directors. All references herein to Rapid include Old Rapid and Kenton, unless the context otherwise requires, and all references herein to Kenton are to such corporation as it existed prior to the Merger (see "Introductory Note" above).

There are currently pending a number of inactive actions allegedly brought derivatively on behalf of Rapid or McCrory and which seek recoveries against certain officers and directors of Rapid for the benefit of Rapid or McCrory based upon allegations of fraud or other wrongdoing by those officers and/or directors. Rapid will attempt to obtain the dismissal of all such actions on the grounds that (i) following the Merger, plaintiffs in those actions are no longer stockholders, directly or indirectly, of the company on behalf of which those actions are brought and therefore lack standing to pursue derivative suits on behalf of such company, (ii) the existence of such actions was taken into account in determining the fair consideration to be given to the public stockholders of Rapid in connection with the Merger, and (iii) all stockholders of Rapid after the Merger have waived for themselves and Rapid any recovery that might have been obtainable in those actions.

The actions which Rapid will attempt to have dismissed include the actions described below under "Litigation Relating to Compensation and Other Matters" and "Litigation Relating to the Disposition of the Retail Division of Anvil" and certain dormant derivative actions.

Securities and Exchange Commission

On August 16, 1979, Rapid, McCrory and Meshulam Riklis, the Chairman of the Board, Chief Executive Officer and President of Rapid and the then Vice Chairman of the Board of McCrory, consented to the entry of judgments against

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them, without admitting or denying the allegations of a complaint filed against them on that day by the Securities and Exchange Commission in the United States District Court for the District of Columbia.

The complaint in the action contained allegations concerning a pattern of transactions whereby Rapid and McCrory paid fees and entered into agreements with personal creditors of and persons who entered into business relationships with Mr. Riklis. It was alleged that the transactions in question were either negotiated or approved by Mr. Riklis at a time when he was the Chairman of the Board and Chief Executive Officer of Rapid and Vice Chairman of the Board of McCrory. The complaint alleged that in certain of the transactions, Rapid or McCrory, at the direction of Mr. Riklis, paid finder's fees or entered into consulting agreements with personal creditors of Mr. Riklis, and that neither the substance of the transactions nor Mr. Riklis' conflict of interest in causing the transactions to be consummated was disclosed to the Board of Directors of Rapid or McCrory. In another transaction it was alleged that Mr. Riklis caused McCrory to amend an employment agreement with a senior executive of McCrory in order to allow the senior executive to immediately receive accrued compensation, to which he was not then entitled, which money was then immediately loaned to Mr. Riklis, and that the Board of Directors of McCrory, who later approved the amendment, was not informed that the proceeds resulting from the amendment were used to make a loan to Mr. Riklis. In other transactions it was alleged that Mr. Riklis negotiated, directly or indirectly, or approved employment agreements on behalf of Rapid and McCrory with senior executives of those companies who were or became his personal creditors or who had entered into personal business relationships with him, and that Mr. Riklis did not disclose to the Boards of Directors of Rapid and McCrory his debtor-creditor or other personal business relationships with the executives in question and his resulting conflict of interest. Kenton was also a party to the proceedings, and the allegations concerning Kenton related to the purchase by Kenton of approximately 1,100,000 shares of Rapid common stock from Mr. Riklis in order, among other reasons, allegedly to allow Mr. Riklis to amortize his personal loans while at the same time retaining his control of Rapid through his substantial influence over the business and affairs of Kenton. In addition, it was alleged that Mr. Riklis caused Kenton, as he did Rapid and McCrory, to enter into transactions with persons who were or became, soon after the transactions were consummated, his personal creditors.

At the time of the filing of the complaint and the related judgments, Rapid, McCrory and Mr. Riklis filed undertakings with the Court requiring them to carry out certain obligations, including the creation of a Transaction Review Committee of the Board of Directors of Rapid. Pursuant to Rapid's undertaking, disclosure to the new Transaction Review Committee of the Board of Directors of Rapid would be required of personal transactions between officers or directors of Rapid or any of its subsidiaries and third parties prior to Rapid's or any of its subsidiaries' entering into transactions with such parties. In addition, approval by the Transaction Review Committee would be required prior to the consummation of any transaction between such third parties and Rapid or its subsidiaries. In accordance with Rapid's undertaking, effective on August 16, 1979, Rapid's Board of Directors was expanded from 12 to 16 members and the four new members of the Board of Directors were elected to the Transaction Review Committee. Prior to their

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election as directors, none of the new directors had any business relationship with Rapid or with any existing director or officer of Rapid. The qualifications of the new directors were submitted to the staff of the Securities and Exchange Commission.

On February 15, 1979, Rapid and Schenley entered into consent decrees with the Securities and Exchange Commission in connection with an action filed on that day by the Commission in the United States District Court for the Southern District of New York. Injunctions entered against Rapid and Schenley, respectively, and the related consents and undertakings given by Rapid and Schenley, among other things, enjoined violations of certain provisions of the federal securities laws, required certain filings to be made with the Commission, and required that Schenley undergo an investigation. The action concerned certain business practices, mainly relating to depletion allowances, which Schenley believes were common in the liquor industry and which have been discontinued in all respects since early 1976. In October 1977, Schenley's Board of Directors initiated a voluntary investigation of prior business practices. Pursuant to the consent decree, Schenley agreed to appoint independent counsel to continue the investigation concerning other payments and practices. Such counsel had previously conducted Schenley's voluntary investigation. On August 24, 1979, the independent counsel's report was filed with the Court and the Securities and Exchange Commission. Insofar as the management of Schenley is concerned, the report concluded that ".... the senior management of Schenley was either unaware of most of the questionable or illegal practices which we have reported upon, or when they became aware of them, took timely action to have such practices stopped." The report contains certain recommendations regarding actions that Schenley should take to insure its continued compliance with applicable federal and state laws governing the liquor industry. No fraud charges were made against Rapid and no allegations were made that it participated in any of the business practices which were the subject of the action.

Litigation Relating to Compensation and Other Matters

A challenge to the compensation and perquisites of employment of certain of Rapid's officers and directors was made in stockholders' derivative actions instituted in the state courts of Delaware and New York. On January 23, 1978, the Delaware Court of Chancery entered an order and judgment approving a settlement agreement, in which plaintiffs in all related actions joined, which order and judgment became final during March 1978. The settlement agreement provided for Messrs. Riklis, Becker and Lane to waive certain contractual rights and for the discharge of all individual defendants, including those persons, from any liability relating to the compensation paid and perquisites of employment given to such defendants prior to December 13, 1977, the date of the settlement agreement. In addition, pursuant to the settlement agreement Messrs. Riklis, Becker and Lane became obligated to pay Rapid $50,000, $125,000 and $25,000, respectively, in five equal annual instalments, without interest, commencing March 31, 1979. The first four instalments have been paid.

In July 1979, an action (the "Weinberger Action") was instituted in the Supreme Court of the State of New York, County of New York, by William B.

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Weinberger, allegedly derivatively on behalf of Rapid. The following directors of Rapid are named as defendants in the action: Meshulam Riklis, Harold S. Divine, Leonard C. Lane and Mona R. Ackerman. In addition, certain former directors of Rapid are named as defendants, including Isidore A. Becker.

The complaint alleges that Mr. Riklis dominates and controls Rapid and its subsidiaries and has selected and caused to be elected all of the members of the Board of Directors of Rapid and that Mr. Riklis and the remaining individual defendants have caused Rapid and Schenley to pay compensation and deferred compensation to Messrs. Riklis and Becker in amounts which are grossly excessive, and which bear no relationship to the value of the services rendered to Rapid and Schenley by Messrs. Riklis and Becker. In addition, the complaint alleges that Messrs. Riklis and Becker devote a substantial portion, if not most, of their time to affairs other than the affairs of Rapid and its subsidiaries. It is alleged that Messrs. Riklis and Becker both receive substantial remuneration from AITS, Inc., and its subsidiary, Hotel Riviera, Inc. The complaint further alleges that Messrs. Riklis and Becker and the other individual defendants were grossly negligent in the discharge of their duties and committed gross mismanagement of Rapid in violation of their fiduciary duties as directors by, among other things, causing Rapid and Schenley to enter into excessive compensation arrangements with Messrs. Riklis and Becker. By reason of such actions, Messrs. Riklis and Becker and the other individual defendants have failed to exercise reasonable and ordinary care, skill and diligence in conducting the business of Rapid and have wasted the assets of Rapid.

In August 1979, the complaint was amended to add Arie Genger (a director of Rapid), McCrory, Schenley, and certain other individual defendants, and to add allegations relating to the transactions which are set forth in the complaint filed by the Securities and Exchange Commission (see above for a description of the Securities and Exchange Commission's complaint).

The amended complaint seeks to enjoin any further performance by Rapid, McCrory and Schenley of the agreements described therein, including the employment arrangements with Messrs. Riklis and Becker, and seeks to require the individual defendants to account for all damages sustained by Rapid, McCrory and Schenley and for all benefits received by them. In addition, the amended complaint seeks costs and disbursements of the action, including counsel and accountants' fees.

In September 1979, an action was instituted in the United States District Court for the Southern District of New York by Bernard Pogostin, allegedly derivatively on behalf of Rapid and McCrory. The following directors of Rapid are named as defendants in the action: Harold S. Divine, Arie Genger, Seymour Kleinman, Leonard C. Lane, Dan Palmon, Meshulam Riklis, Leo Stone, Helen Updike and Mona Ackerman. The complaint also names certain former directors of Rapid and all but one of McCrory's directors.

The complaint contains allegations relating to the transactions which are set forth in the complaint filed by the Securities and Exchange Commission (see above for a description of the Securities and Exchange Commission's complaint).

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The complaint seeks to require the individual defendants to account to Rapid and McCrory for all profits made by them and for the damages sustained by Rapid and McCrory.

On May 22, 1980, an order was entered transferring the action to the Court's suspense calendar pending disposition of the Weinberger Action.

Action by Unishops

In February 1974, an action was instituted in the Supreme Court of the State of New York, County of New York, by Unishops, Inc., and several of its wholly-owned subsidiaries, against J. J. Newberry, McCrory, Rapid, and former McCrory and J. J. Newberry executives. The complaint alleges, in essence, that to permit J. J. Newberry to sell three stores, plaintiffs cancelled license agreements, pursuant to which they operated men's and boys' wear departments in those stores, in reliance upon J. J. Newberry's agreement that those agreements would be replaced by new license agreements for four new locations. Plaintiffs charge that the amount of business done at two of the new locations has been materially less than represented by J. J. Newberry and that defendants have refused to enter into the other two promised agreements. McCrory and Rapid are alleged to be liable to plaintiffs by virtue of their ownership and control of J. J. Newberry and because they allegedly cooperated in J. J. Newberry's acts. Plaintiffs seek aggregate damages of $7,500,000 plus costs.

Litigation Related to the Disposition of the Retail Division of Anvil

In August 1976, an action was commenced in the Supreme Court of the State of New York, County of New York, by William B. Weinberger, allegedly a stockholder of Rapid, derivatively on behalf of Rapid. Named as defendants are Rapid, certain of its directors and officers, including Meshulam Riklis, Harold S. Divine, Leonard C. Lane, certain former Rapid directors, and Natco Industries, Inc. ("Natco"), and Morton L. Olshan. The complaint alleges, in essence, that: (a) in 1972, Rapid owned The B.V.D. Company, Inc. (now Anvil Brand, Incorporated-"Anvil"); (b) certain executive employees of Anvil formed Natco which purchased the retail division of Anvil for $16 million; (c) at the direction and insistence of Mr. Riklis, Natco agreed to pay a finder's fee to Mr. Olshan, consisting of an option to purchase shares of Natco's capital stock together with certain rights to receive more than $1 million in cash upon the cancellation of the option under certain circumstances, the right to purchase certain additional shares of Natco's capital stock, and a five-year consulting agreement with Natco at $75,000 per year; (d) the finder's fee was worth in the aggregate approximately $2 million; (e) the finder's fee was not earned by Mr. Olshan, but was paid to him as a long-time friend and business associate of Mr. Riklis; (f) the finder's fee rightfully belonged to Rapid as part of the purchase price paid by Natco for the retail division of Anvil; and (g) such sale was made for grossly inadequate consideration. The complaint seeks compensatory damages on behalf of Rapid in an amount equal to the value of the finder's fee and the alleged unjust enrichment of Natco and punitive damages against the individual defendants.

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Plaintiff has moved to amend his complaint to dismiss Natco and Morton L. Olshan as defendants and to make, in essence, the following allegations in lieu of the previously asserted allegations: (i) in 1972, Rapid owned the B.V.D. Company, Inc. (now Anvil); (ii) certain executive employees of Anvil formed Natco which purchased the retail division of Anvil for $16 million; and (iii) the price received by Rapid from Natco was grossly inadequate and was substantially below the market value of the retail division. The proposed amended complaint seeks damages on behalf of Rapid equal to the difference between the true value of the retail division and the actual price paid for the division by Natco. The motion was denied by order dated January 29, 1981. Plaintiff has appealed from that order.

Litigation Relating to 1979 Exchange Offer

In response to an exchange offer (the "Exchange Offer") to common and preferred stockholders, which expired November 30, 1979, Rapid issued 2,671,790 shares of a new $3.00 redeemable preference stock (the "$3.00 Preference Stock") in exchange for 2,051,868 shares of Rapid Common Stock and shares of converible preferred stock convertible into 619,922 shares of Rapid Common Stock. On or about April 1, 1980, an action was instituted in the Court of Chancery of the State of Delaware by Benjamin M. Clasky, allegedly a stockholder of Rapid, on behalf of all stockholders of Rapid similarly situated and derivatively on behalf of Rapid. The complaint names as defendants Rapid and Meshulam Riklis, Harold S. Divine, Leonard C. Lane, Arie Genger and Mona R. Ackerman (directors of Rapid). In addition, certain former directors of Rapid are named as defendants. The complaint alleges that prior to August 16, 1979, Mr. Riklis, in concert with the other individual defendants, entered into a plan and scheme to increase Mr. Riklis' alleged domination and control of Rapid through Kenton by means of a recapitalization plan enabling him to prevent others from obtaining control of Rapid. In furtherance of such plan and scheme, Rapid was caused to issue a proxy statement dated September 17, 1979, for a meeting of stockholders to be held on October 16, 1979. At such meeting, Rapid stockholders would be asked to approve an amendment to Rapid's Certificate of Incorporation authorizing a new class of preference stock and, upon such approval, Rapid intended to issue a series of preference stock in connection with the Exchange Offer which was then contemplated. The complaint further alleges that prior to the issuance of the aforesaid proxy statement, Rapid's Board of Directors had authorized a program of expansion of retail store operations which anticipated the opening of approximately 150 stores a year in various Rapid divisions and that the proxy statement failed to disclose such expansion program. The complaint alleges that following the approval by Rapid's stockholders of the amendment to Rapid's Certificate of Incorporation, Rapid's Board of Directors authorized the Exchange Offer, fixed the designations, preferences and rights of the $3.00 Preference Stock and set the dividend rate thereon at $3.00 per share. The complaint further alleges that as a result of the Exchange Offer, Kenton's interest in Rapid was increased from 23.5% to 32% of Rapid's outstanding stock and, therefore, Mr. Riklis' control over Rapid was also increased. The amendment to Rapid's Certificate of Incorporation and the consummation of the Exchange Offer are alleged not to have served a bona fide corporate purpose of Rapid, but were intended to benefit Mr. Riklis. As a consequence of the Exchange Offer, it is alleged that Rapid obligated itself to pay annual

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cumulative dividends of approximately $8,570,000, which exceeds by approximately $7,740,000, the cumulative dividends Rapid was obligated to pay prior to the Exchange Offer. The complaint alleges that the individual defendants, as members of Rapid's Board of Directors, violated their fiduciary duties to Rapid since they acted with the knowledge that no bona fide corporate purpose would be served and a waste of Rapid's assets would occur if the Exchange Offer was consummated. The complaint seeks preliminary and permanent injunctions of the Exchange Offer or, alternatively, the rescission of the Exchange Offer, an order requiring defendants to account for damages sustained by Rapid as a result of the acts and transactions alleged in the complaint, and an order awarding to plaintiff the costs and disbursements of the action including fees of attorneys and accountants.

Asbestosis Litigation

Rapid and Glen Alden Corporation ("Glen Alden"), a predecessor of Rapid, together with other corporations which are allegedly miners, manufacturers and distributors of asbestos or products containing asbestos, are defendants in a number of actions filed in several states alleging injuries to the health, or wrongful death, of persons exposed to asbestos or products containing asbestos. There are currently pending approximately 191 actions against Rapid or Glen Alden in which an aggregate of approximately 430 persons are seeking compensatory and punitive damages. Two of the actions have been brought purportedly on behalf of numerous individuals who are alleged to be members of the same class. In the only determination as to the propriety of permitting an asbestos action to be maintained as a class action, class action status was denied. It is likely that additional actions will be commenced in the future.

Neither Rapid nor Glen Alden is or ever was directly involved in the mining, manufacture or distribution of asbestos or products containing asbestos. In 1966, Glen Alden acquired 28% of the outstanding shares of The Philip Carey Manufacturing Company, an Ohio corporation ("Old Carey"). Since its incorporation in 1888, Old Carey had been engaged in, among other things, the manufacture of products containing asbestos fibers and since 1915, through a Canadian subsidiary, it owned and operated asbestos mines and mills. On June 1, 1967, Old Carey was merged into Glen Alden and the assets, properties and businesses of Old Carey were contemporaneously transferred to a newly-formed corporation called The Philip Carey Manufacturing Company, an Ohio corporation ("New Carey"), which was then a wholly-owned subsidiary of Glen Alden. As part of such transaction, New Carey contractually assumed and indemnifed Glen Alden (the "Indemnification Agreement") against all of the liabilities of Old Carey to which Glen Alden might become subject as a result of the aforesaid merger. From and after June 1, 1967, the asbestos business formerly conducted by Old Carey was carried on by New Carey. In April 1970, New Carey merged with Briggs Manufacturing Company, in which Glen Alden then had a 48% interest, to form Panacon Corporation ("Panacon"). On April 17, 1972, Glen Alden sold all of its shares of Panacon, representing approximately 89% of the outstanding shares thereof, to The Celotex Corporation ("Celotex"), a wholly-owned subsidiary of Jim Walter Corporation. Thereafter, Panacon was merged into Celotex. In all of the asbestos actions in which Rapid or Glen Alden is a party, each has asserted or will assert claims for indemnification

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against Celotex as the successor in interest to New Carey and Panacon under the Indemnification Agreement. To date, in certain of the actions in which such claims have been made, Celotex has denied Rapid's and Glen Alden's claims and in the remainder of such actions, Celotex has been deemed to have denied such claims. Although in certain of the actions, Celotex has admitted that it is the successor in interest of Old Carey and New Carey, Celotex has asserted cross-claims against Rapid or Glen Alden in certain of the actions for indemnification or contribution as to judgments for compensatory or punitive damages which may be rendered against Celotex. Rapid and Glen Alden have denied the claims asserted by Celotex. Should any of the actions in which Rapid is a party result in judgments against Rapid, Rapid believes that it would be entitled to and would seek indemnification from Celotex under the Indemnification Agreement. To the extent that any judgments which might be entered against Rapid are not satisfied by Celotex under the provisions of the Indemnification Agreement, Rapid would seek indemnification from its insurance carriers and those which had insured Old Carey and New Carey.

To date none of the asbestos cases in which Rapid or Glen Alden is a defendant has been tried, and except for the settlement of two actions in which an insurance carrier has paid an aggregate of $15,000, neither Rapid nor Glen Alden nor any insurance carrier on behalf of either has been required to pay any sums in connection with any of the asbestos actions which have been settled. In June and July 1981, a jury rendered verdicts for $91,000 in compensatory damages and $95,000 in punitive damages against Celotex in 14 asbestos actions which had been consolidated for trial. Rapid or Glen Alden had originally been defendants in each of the actions, but had been discharged by stipulation among all parties. In agreeing to permit Rapid or Glen Alden to be discharged from the actions, Celotex reserved the right to seek indemnification or contribution from Rapid or Glen Alden in the event a judgment for punitive damages in the actions was entered against Celotex.

Since 1966, when Glen Alden first acquired its interest in Old Carey, primary liability coverage for bodily injury has been maintained by Rapid or Glen Alden having aggregate annual maximum policy limits in the sum of $3,000,000. In addition to primary insurance, Rapid and Glen Alden have maintained excess liability insurance coverage for such years substantially over the amount of the primary insurance coverage.

While the aggregate amount of damages sought to be recovered by plaintiffs in the actions in which Rapid or Glen Alden is a defendant is substantial, the actual amounts of various settlements of actions in which Rapid or Glen Alden was not required to contribute to a settlement fund have been significantly less than the amounts demanded in plaintiffs' complaints, and payment of the amounts of the settlements has been divided among various of the settling defendants or their insurance carriers.

Litigation Related to Employment Matters

In September 1979, an action was instituted in the United States District Court for the Northern District of Illinois, Eastern Division, by Alvin Hayes and others against Schenley Affiliated Brands Corp., a subsidiary of Schenley, and others. Each of the plaintiffs allege that he is currently or

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was previously employed by the defendants. The complaint alleges, in essence, that the defendants have violated certain provisions of the Civil Rights Act of 1964 by discriminating against plaintiffs in job classifications and job assignments because of their race. In addition, the complaint alleges that the defendants have maintained policies and practices with respect to, among other things, wages, fringe benefits and other terms and conditions of employment, which have operated to deny equal opportunities to plaintiffs because of their race. The complaint seeks a declaratory judgment that defendants' acts set forth in the complaint violated plaintiffs' rights under the Civil Rights Act of 1964 and a permanent injunction enjoining the defendants from engaging in any employment policy or practice which discriminates against plaintiffs on the basis of race. The complaint further seeks appropriate back pay and reimbursement for lost wages, social security, experience, training opportunities and other benefits, and other affirmative relief, including an affirmative action program designed to eliminate the effects of the discriminatory practices set forth in the complaint. In addition, the complaint seeks compensatory damages of $25,000,000 and punitive damages of $25,000,000, and costs and disbursements in connection with the action, including counsel fees. By order dated July 14, 1980, the court granted defendants' motion to join the Liquor and Wine Salesmen's Union, Local No. 62 (the "Union"), as a party defendant, and granted defendants' motion to dismiss the complaint insofar as it related to claims asserted under Title VII of the Civil Rights Act of 1964. Certain other claims were allowed by the court to stand. Plaintiffs filed an amended complaint joining the Union as a defendant on September 9, 1980. Defendants have moved to strike the claimed amounts of compensatory and punitive damages from the complaint and for partial summary judgment modifying the period during which plaintiff's claimed they have been damaged. These motions are pending.

Litigation Relating to Dialysis Facility

Actions have been commenced against, among others, IHC, certain of its employees and Rapid in the Superior Court of the State of California for the County of Los Angeles, relating to the treatment in September 1978 of several persons at the Century City Hospital dialysis facility (the "facility") in Century City, California. The facility was managed by IHC. During February 1980, Century City Hospital's license to operate the facility was revoked by the State of California. Two of these actions were commenced during 1979 by such persons or their representatives or persons claiming through them seeking unspecified general and punitive damages allegedly arising out of injuries or wrongful death occurring by reason of the alleged negligence of defendants in the treatment of such persons. Except for the wrongful death claim of one plaintiff, all of such personal injury and wrongful death claims have been settled. To the extent that any judgment might be rendered against Rapid in the remaining action, it would seek indemnification from its liability insurance carriers. At all relevant times Rapid has maintained liability coverage for bodily injury having maximum policy limits in the sum of $1,000,000 per medical incident.

As a consequence of the injuries or wrongful deaths allegedly suffered by such persons, several additional actions have been commenced. In March 1980, an action was commenced against Rapid by Century City Hospital seeking general damages in the sum of $8,400,000 and punitive damages in the sum of $25,200,000, plus costs, for breach of contract and tortious breach of

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contract. The complaint alleges, among other things, that as a result of the treatment of certain persons at the facility in September 1978, Rapid breached its lease agreement with Century City Hospital by failing to render and deliver dialysis treatments at the facility in accordance with professional standards and regulations adopted by the State of California Department of Health Services. The complaint further alleges that as a result of defendants' breaches and of their subsequent failure to notify plaintiff of the nature of their breaches, plaintiff was damaged in that the sale price of Century City Hospital was depressed and revenues from hospital services were diminished. The punitive damage claim has been dismissed by the court.

Rapid is the plaintiff in an action commenced against Century City Hospital in which the complaint, among other relief, seeks damages of approximately $90,000 arising from an alleged contractual obligation of Century City Hospital to reimburse Rapid for certain charges relating to the operation of the facility.

Additional Litigation, etc.

Various other legal proceedings including governmental proceedings and investigations by federal and state regulatory agencies having jurisdiction over aspects of the business and affairs of Rapid and its subsidiaries are pending against or otherwise relate to Rapid and its subsidiaries, involving miscellaneous causes of action arising from their businesses, including, but not limited to, income tax matters, treble damage actions under the antitrust laws, commercial cases arising out of agreements or alleged agreements, personal injury and property damage matters, labor disputes, and other actions. A proceeding is pending before the Environmental Protection Agency involving Schenley (see "Alcoholic Beverages-Environment" in Item 1). Management does not consider any of these proceedings or investigations to be material.

Item 4. Security Ownership of Certain Beneficial Owners and Management.

The following table sets forth certain information with respect to persons known by management to own beneficially more than 5% of any class of voting securities of Rapid, as of April 15, 1982:

Title of Class	Name and Address of Beneficial Owner	Shares Beneficially Owned	Percent of Class
Common Stock	Riklis Family Corporation (a) 888 Seventh Avenue New York, NY 10106	1,461,364	60%
	American Financial Corporation (b) One East Fourth Street Cincinnati, OH 45202	974,243	40%

(a) Meshulam Riklis is the beneficial owner of 100,000 shares of senior voting preferred stock of Riklis Family Corporation, the ownership of which constitutes voting control thereof. Trusts for the benefit of Mr. Riklis'

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descendants (including Mona R. Ackerman, Ira D. Riklis and Marcia Riklis, who are directors of Rapid) own the remaining equity interest in Riklis Family Corporation.

(b) Carl H. Lindner is the beneficial owner of 50.5% of the outstanding common stock of AFC, the ownership of which constitutes voting control thereof. The balance of the common stock of AFC is owned by members of Mr. Lindner's family (including Carl H. Lindner, III and S. Craig Lindner, who are directors of Rapid) and trusts for their benefit.

As a result of the Merger (see "Introductory Note" above), Rapid became a privately held corporation, and except as set forth herein, the directors and officers of Rapid do not own any of Rapid equity securities or any equity securities of any Rapid subsidiaries. On March 2, 1982, Rapid redeemed all of its outstanding Redeemable Preferred Stock. Prior to the redemption, AFC owned 106,625 shares of Rapid Redeemable Preferred Stock, which constituted 90% of the class. During February 1981, Riklis Family Corporation granted an option to purchase up to 97,424 shares of Rapid Common Stock (approximately 4% of the class) to a partnership, of which Abraham G. Levin, a director of Rapid, is the managing partner, composed of certain partners (and members of their families) of the law firm of Rubin Baum Levin Constant & Friedman, general counsel to Rapid. Mr. Levin is the senior partner of Messrs. Rubin Baum Levin Constant & Friedman. The option is exercisable for a period of 30 years from the date of grant (subject to earlier termination upon a disposition by Riklis Family Corporation of its shares of Rapid Common Stock) at an exercise price of $30.79 per share. The rights under the option are subject to the security interests granted to certain banks in the shares of Rapid Common Stock owned by Riklis Family Corporation (see the description of such security interests below in this Item 4).

In connection with the Merger, Riklis Family Corporation, AFC and Rapid have agreed to enter into a stockholders' agreement relating to the Rapid Common Stock, which will principally reflect the following:

1. Neither Riklis Family Corporation nor AFC will sell or dispose of any of its Rapid Common Stock without affording the other stockholders and Rapid the right of first refusal on the same terms to acquire such shares; provided, however, that Riklis Family Corporation shall be entitled to sell or dispose of up to an aggregate of 9% of the total outstanding shares of Rapid Common Stock (to a limited number of persons all of whom will have agreed to join in the stockholders' agreement) without affording AFC and Rapid the right of first refusal (see the description above of the option to purchase shares of Rapid Common Stock granted by Riklis Family Corporation).

2. Riklis Family Corporation will agree that if it sells shares of Rapid Common Stock (other than sales of up to an aggregate of 9% of the total outstanding shares) it will obtain from the purchaser an option in favor of AFC to sell the same proportion of the shares of Rapid Common

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Stock owned by AFC on the same per share terms as the shares sold by it.

3. So long as AFC continues to own at least 15% of the total outstanding shares of Rapid Common Stock, Rapid will not issue additional shares of Rapid Common Stock without affording AFC and Riklis Family Corporation preemptive rights to ensure each of them the ability to own sufficient shares of Rapid Common Stock to retain their then respective percentage ownership of Rapid Common Stock.

4. AFC and Riklis Family Corporation will agree to vote their shares of Rapid Common Stock for the Board of Directors as now constituted (see Item 9 - "Directors and Executive Officers of the Registrant" below) for the fiscal year ended January 31, 1983, and will further agree to vote their shares to elect the members of the Transaction Review Committee to the Board of Directors of Rapid until at least August 15, 1984 (see Item 3 - "Legal Proceedings - Securities and Exchange Commission" above). The election of all directors, other than the members of the Transaction Review Committee, shall be by cumulative voting, and the number of directors shall be at least 10.

5. AFC will have the right at any time to cause Rapid to purchase all, but not less than all of the shares of Rapid Common Stock owned by AFC in the following manner. Unless the parties otherwise agree, AFC and Riklis Family Corporation shall each select an arbitrator (which shall be a nationally recognized investment or commercial bank or accounting firm), which arbitrators shall, if they are unable to agree on the terms of the purchase, select a third arbitrator. The third arbitrator shall value the shares of AFC's Rapid Common Stock and determine the purchase price for such shares; provided, however, that the consideration to be paid and the method of payment for such shares must comply with certain restrictions relating to the repurchase of shares of Rapid capital stock contained in the indenture for Rapid's 10% Sinking Fund Subordinated Debentures, due 2006 (for a description of such restrictions see Item 5 - "Market for the Registrant's Common Stock and Related Security Holder Matters" below). The decision reached in the arbitration shall be final and binding upon the parties.

6. Upon the death, permanent disability or mental incapacity of Meshulam Riklis or his failure or inability, by reason of sale or otherwise, to maintain majority voting control, directly or indirectly, of Rapid Common Stock, AFC shall have the right to cause Rapid to purchase all, but not less than all, of the shares of Rapid Common

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Stock owned by it by giving notice to Rapid and Riklis Family Corporation that it desires Rapid to purchase such shares setting forth a per share price, method of and the security, if any, for payment. For a period of ninety (90) days following the notice, Riklis Family Corporation shall have the right to cause Rapid to purchase all, but not less than all, shares of Rapid Common Stock owned by it in lieu of purchasing the shares of AFC, on the same terms specified in AFC's notice. The terms of any purchase must comply with the restrictions described in paragraph 5 above.

Rapid has been advised that Mr. Riklis has borrowed money from Seattle-First National Bank ("Seattle") which is payable in instalments through 1984, and bears interest at a rate related to the bank's prime rate; provided, however, that at any time Seattle has the right to demand payment of the loan. The loan is secured by a security interest in all of the shares of Rapid Common Stock owned by Riklis Family Corporation, and the senior voting preferred stock of Riklis Family Corporation. In addition, Rapid has been advised that Mr. Riklis has entered into an agreement with Chemical Bank ("Chemical") which restructured and restated Mr. Riklis' outstanding indebtedness to Chemical. The indebtedness is payable on December 31, 1985, with the portion representing principal, bearing interest at a fixed rate which is less than the current prime rate, and with the portion representing accrued interest not bearing additional interest. If there is an event of default under the agreement, the entire indebtedness would bear interest at Chemical's prime rate. Subject to the prior security interest of Seattle, Chemical was granted a security interest in the securities pledged to Seattle. In addition, Chemical was granted a security interest in certain other collateral. In the absence of a default of Mr. Riklis' obligations to Seattle or Chemical, Riklis Family Corporation has the right to vote the shares of Rapid Common Stock held as collateral. In connection with the restructuring of Mr. Riklis' indebtedness, Chemical granted an option to AFC which provides that if an event of default occurs under the agreement, Chemical would notify AFC which would then have the right to acquire at the face value thereof Chemical's claims against Mr. Riklis together with the collateral securing such claims. In the event of a default in the repayment of Riklis' obligations to either Seattle or Chemical, any resulting foreclosure upon the shares of Rapid Common Stock could result in a change of control of Rapid.

Chemical is the Agent Bank under McCrory's Credit Agreement, dated as of June 19, 1981, and Seattle is a lender to McCrory. Reference is made to Note 6 to Financial Statements for a description of the McCrory Credit Agreement.

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PART II.

Item 5. Market for the Registrant's Common Stock and Related Security Holder Matters.

Trading and Dividends

As a result of the Merger (see "Introductory Note" above), Rapid Common Stock is not publicly traded. The number of holders of record on April 15, 1982 of each class of equity securities of Rapid is set forth in the following table:

Title of Class	Number of Holders of Record
Common Stock	2

During the year ended January 31, 1981, Kenton did not pay any dividends on its common stock; for a description of the dividends paid by Old Rapid on shares of its common stock during such year, see Item 6 below.

During the year ended January 31, 1982, cash dividends of $.40 per share were paid on Rapid Common Stock. See Note 3 to Financial Statements for certain information regarding non-cash distributions. In addition, cash dividends aggregating $.70 per share have been declared on Rapid Common Stock payable in the first fiscal quarter of 1982.

Dividend and Stock Purchase Restrictions

The indenture for Rapid's 10% Sinking Fund Subordinated Debentures, due 2006, provides that Rapid will not (i) declare or pay any dividend or make any distribution on its capital stock or to its stockholders (other than dividends or distributions payable in its capital stock) or (ii) purchase, redeem or otherwise acquire or retire for value any of its capital stock or permit any subsidiary to do so, if at the time of such action an Event of Default (as defined) shall have occurred and be continuing or if upon giving effect thereto the aggregate amount expended for all such purposes subsequent to January 31, 1981 shall exceed the sum of (a) 85% of the aggregate of the (i) consolidated net income of Old Rapid (see "Introductory Note" above) for its fiscal year ended January 31, 1981, less any dividends paid by Old Rapid on shares of its capital stock during such fiscal year and (ii) consolidated net income of Rapid subsequent to January 31, 1981, (b) the aggregate net proceeds received by Rapid from the issue or sale after January 31, 1981 of capital stock of Rapid, and (c) the aggregate net proceeds received by Rapid from the issue or sale of any indebtedness of Rapid converted after January 31, 1981 into capital stock of Rapid; provided, however, that such provisions will not prevent the payment of any dividend within 60 days after the date of declaration if the payment complied with the foregoing provisions on the date of declaration, or the retirement of any shares of Rapid's capital stock by exchange for, or out of the proceeds of the substantially concurrent sale of, other shares of its capital stock.

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Consolidated net income is defined as the reported consolidated net income of Old Rapid and its consolidated subsidiaries for its fiscal year ended January 31, 1981 and the reported consolidated net income of Rapid and its consolidated subsidiaries for subsequent periods determined in accordance with generally accepted accounting principles, excluding (i) the portion thereof allocable to minority interests in any such consolidated subsidiaries, (ii) net income of any corporation (other than a consolidated subsidiary) combined with Rapid or any consolidated subsidiary on a "pooling of interests" basis earned prior to the date of combination, and (iii) all charges incurred and credits realized which are unusual in nature and infrequently occurring. At January 31, 1982, the amount available under the above provisions was approximately $27,000,000.

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Item 6. Selected Financial Data.

	Year Ended January 31,				
	1982	1981 (a)	1980	1979	1978(b)
	(Dollars in millions, except per share amounts)				
Sales	$2,645.9	$2,588.7	$2,603.9	$2,474.9	$2,389.8
Income from continuing operations	7.0	27.6	34.6	37.2	25.1
Total assets	1,567.4	1,561.7	1,587.7	1,584.1	1,561.7
Long-term debt	881.0	855.2	782.7	812.0	731.6
Non-current capital lease obligations	65.3	75.7	85.4	97.3	106.5
$3.00 preference stock.	-	-	53.5	-	-
Per share:					
Income from continuing operations:					
Primary	2.03	3.55	4.55	4.52	2.95
Fully diluted ...	2.03	3.38	4.02	3.92	2.65
Cash dividends declared on common stock ...	1.00	.60	.60	.40	-
Other:					
Return on sales	.2%	1.1%	1.3%	1.5%	1.1%
Working capital at year-end	457.5	467.8	593.0	618.6	512.6
Current ratio	2.1	2.1	2.8	2.9	2.2
Ratio of earnings to fixed charges and preferred dividends combined	1.15	1.20	1.37	1.54	1.30
Number of employees at year-end	45,000	46,000	48,000	50,000	51,500

(a) On January 31, 1981, the Merger was consummated. See "Introductory Note" above and Note 2 to Financial Statements for certain unaudited pro forma information giving effect to the Merger.

(b) During the year ended January 31, 1979 the last-in, first-out method of inventory pricing for substantially all inventories was adopted.

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Supplemental Information on Changing Prices Required by the FASB

The United States in recent years has experienced a high rate of inflation. Inflation tends to distort the traditional measurement of income and capital. The Financial Accounting Standards Board (FASB) recognized this problem and issued Statement No. 33 - Financial Reporting and Changing Prices. This statement requires companies to demonstrate the effects of inflation and changing prices on their operations by supplementing their historical financial statements with data that demonstrate the effects of inflation.

Historical data is adjusted for general inflation by using the Consumer Price Index for All Urban Consumers as a broad-based measure of general inflation. The financial data for any comparison of a series of years that results from this method are expressed in terms of constant dollars of purchasing power.

Current cost data is determined based upon year end prices for inventory and property of the type and age used in the company's businesses. Such data for inventory and cost of goods sold is based upon current invoices, price lists and quotations from suppliers. Data for fixed assets is generally based upon indices which approximate the current cost of acquiring used equipment and facilities.

Rapid uses the LIFO inventory method in valuing substantially all of its inventories. Accordingly, since the LIFO method matches current costs with current revenues, Rapid has already made some allowance for the effects of general inflation and changing prices in the historical financial statements.

The following data was prepared in accordance with the FASB Statement to demonstrate the effects of inflation and changing prices.

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Net income adjusted for general inflation and changing prices

	Year ended January 31, 1982		
	As reported	Adjusted for general inflation (constant dollars)	Adjusted for changes in specific prices (current costs)
		(In Millions)	
Net sales and other revenues	$2,676	$2,676	$2,676
Cost of goods sold	1,872	1,902	1,894
Selling, general and administrative expenses	569	569	569
Interest and debt expense	161	161	161
Depreciation and amortization	34	65	73
Nonrecurring item	6	6	6
Provision for income taxes *	27	27	27
	2,669	2,730	2,730
Income (loss) from operations	$ 7	$ (54)	$ (54)
Gain from decline in purchasing power of net amounts owed		$ 90	$ 90
Increase in current cost of inventory, property, plant and equipment held during the year (based on specific price changes)			$ 42
Effect of increase in general price level			122
Decrease in current cost of inventory, property, plant and equipment held during the year (based on specific price changes) net of changes in the general price level			$ (80)

* In accordance with FASB Statement No. 33 the provision for income taxes is not adjusted for the effects of general inflation.

The current cost of inventory was approximately $728,000,000 and property, plant and equipment (net of accumulated depreciation and amortization) was approximately $737,000,000, at January 31, 1982.

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Five year comparison of selected supplementary financial data adjusted for general inflation and changing prices in average fiscal 1981 dollars

	Year Ended January 31,				
	1982	1981	1980	1979	1978
	(In Millions, Except Per Share Amounts)				
Net sales:					
As reported	$ 2,646	$ 2,589	$2,604	$2,475	$2,390
Adjusted for general inflation	$ 2,646	$ 2,850	$3,248	$3,447	$3,591
Reported information adjusted for general inflation					
Income (loss) from operations	$ (54)	$ (35)	$ 10		
Income (loss) from operations per common share - primary.	$(22.99)	$ (8.60)	$ .97		
Gain from decline in purchasing power of net amounts owed	$ 90	$ 131	$ 163		
Net assets at year end	$ 552	$ 560	$ 674		
Current cost information					
Loss from operations	$ (54)	$ (44)	$ (26)		
Loss from operations per common share - primary	$(22.99)	$(10.35)	$(4.48)		
Net assets at year end	$ 662	$ 717	$ 720		
Other information					
Cash dividends declared per common share	$ 1.00	$ .66	$ .75	$ .56	-
Market price per common share at year end	-	$27.36	$24.21	$20.69	$ 9.05
Average consumer price index.	274.2	249.1	219.8	196.9	182.5

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Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Results of Operations

Net sales increased by 2% or $57,240,000 during fiscal 1981. Retail sales increased 8%, due primarily to the additional sales volume of the acquired S.H. Kress Stores and other stores opened, which was offset in part by a 13% decline in alcoholic beverage sales, due primarily to the continued effect of the disposal of "in house" distributors and a decline in case sales. Other revenues in 1981 increased by $15,202,000 principally due to the gain on sale of an airplane and increased interest income earned mainly by Schenley. Cost of goods sold and selling, general and administrative expenses also increased 2%, in proportion with the increase in sales. Interest expense increased by $43,651,000 primarily as a result of interest on the 10% Debentures (issued in the Merger - see "Introductory Note" above), higher borrowing levels and higher prime interest rates in effect during the year. The effective income tax rate increased from 45.4% to 79.1%, primarily due to a tax provision related to the disposition of Schenley's Canadian operations. The decline in net income was principally due to the nonrecurring loss on the disposition of Schenley's Canadian operations and increased interest expense.

Net sales in fiscal 1980 totaled $2,588,674,000, less than 1% below 1979 sales of $2,603,865,000. Retail sales increased moderately while alcoholic beverage sales declined moderately due principally to the disposal of "in house" distributors in 1979 and 1980. Other revenues in 1980 increased by $5,370,000 principally due to the gain on the sales of distributors. Total costs and expenses were virtually unchanged from the prior year, although as a percentage of revenues there was an increase in 1980. This was caused by the expenses incurred in operating over 100 additional stores and the inventory liquidation losses incurred in the industrial group. Net income for 1980 was $27,566,000 compared to $34,603,000 in 1979. The decline in net income was primarily due to reduced sales without corresponding reductions in costs and expenses.

Net sales increased 5% or $128,949,000 during fiscal 1979. Retail sales accounted for 67% of this increase, with improved sales per store in the McCrory and Otasco stores and an additional 72 Lerner stores. Cost of goods sold also increased by 5% or $92,378,000. Selling, general and adminstrative expenses increased by $42,159,000, reflecting the increased costs associated with the new stores and additional volume related thereto. Interest expenses increased by $11,321,000 due primarily to higher prime interest rates in effect during the year. The effective income tax rate declined from 52.5% to 45.4% primarily due to a reduction in the statutory rate and increased investment tax credits. The decline in net income was principally due to record prime interest rates and the increased impact of the "LIFO" method of valuing substantially all of Rapid's inventories.

Liquidity and Capital Resources

Rapid and its subsidiaries, during the three years ended January 31, 1982, have funded debt repayments, capital additions and dividends principally through earnings from operations, depreciation and amortization of

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property and debt discount, and deferred income taxes. Seasonal working capital requirements have generally been provided by borrowings under bank credit agreements.

The Merger of Rapid and Kenton on January 31, 1981 and the warrant exchange offer, which expired on April 20, 1981, resulted in the issuance of approximately $291,400,000 principal amount of Rapid 10% debentures. Accordingly, interest expense has been significantly increased. Such additional interest expense has been offset in part by reductions in related income taxes attributable to such interest and amortization of original issue debt discount, together with reductions in cash dividends on preference, preferred and common stocks. (See Note 2 to Financial Statements).

Rapid anticipates that repayments of long-term debt and expenditures for capital additions will be provided from general corporate funds or other sources, which may include proceeds from borrowings, sales of assets or refinancings.

See Item 6 for the effects of inflation on Rapid's Financial Statements.

Item 8. Financial Statements and Supplementary Data.

See accompanying Index to Financial Statements and Schedules on page F-1.

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Item 9. Directors and Executive Officers of the Registrant.

The following table sets forth the principal occupations and certain related information of Rapid's directors and executive officers as of April 15, 1982:

Name	Age	Principal occupation and related information	Served as director since	Served as officer since
Mona R. Ackerman (a)	35	Private investor; senior editor, Jove Books, from March 1979 to January 1981; editor, Dell Publishing Company, 1978 to 1979; story editor, associated with Frank Yablans Productions (motion picture producer), 1975 to 1977	1976	-
Harold S. Divine	60	Vice Chairman of the Board of Rapid since May 1977	1976	1977
Arie Genger	36	Civil Servant - Government of Israel since January 1982; Executive Vice President of Rapid from May 1980 to January 1982; Vice President and Executive Assistant to the Chairman of the Board of Rapid from June 1976 to May 1980; President and Chief Operating Officer of McCrory from March 1980 to January 1982, and a director of McCrory from August 1977 to January 1982; Executive Vice President of McCrory from May 1977 to March 1980	1978	-
Seymour Kleinman(b)	63	Senior partner, law firm of Golenbock and Barell, and Lecturer in Finance and Secured Transactions, Columbia University Law School, for more than the past five years; Chairman of the Transaction Review Committee of Rapid since August 1979	1979	-

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Name	Age	Principal occupation and related information	Served as director since	Served as officer since
Leonard C. Lane	63	Chairman of the Board of ILC Industries, Inc. ("ILC") (primarily a manufacturer of advanced electronic data converters) since May 1977; Vice Chairman of the Board of Rapid from February 1981 to March 1982; Executive Vice President of Rapid from April 1969 to February 1981	1960	-
Abraham G. Levin	62	Senior partner, law firm of Rubin Baum Levin Constant & Friedman, general counsel to Rapid, for more than the past five years	1981	-
Carl H. Lindner, III (a)	28	Executive Vice President of Great American Insurance Company, a subsidiary of AFC, since February 1980; prior thereto associated with AFC's banking, insurance and investment companies for more than the past five years	1981	-
S. Craig Lindner(a)	27	Executive Vice President of American Money Management Corporation, an investment subsidiary of AFC, since April 1980; prior thereto associated with AFC's banking, insurance and investment companies for more than the past five years; a director of American Financial Enterprises Inc., nominee for director of FMI Financial Corporation	1981	-
Robert C. Lintz(a)	48	Vice President of AFC since April 1979; prior thereto associated with AFC and its subsidiaries in various executive capacities for more than the past five years	1981	-

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Name	Age	Principal occupation and related information	Served as director since	Served as officer since
Daniel J. Manella	56	Executive Vice President of Rapid since February 1981; Chairman of the Board of Kenton from September 1978 to January 1981, and Chief Executive Officer of Kenton from February 1979 to January 1981; Chairman of the Board, President and Chief Executive Officer of McGregor since May 1981; Chairman of the Board of the Botany Shirt Division of Rapid since February 1979; prior thereto President and Chief Executive Officer of the Botany Shirt Company from 1975 through January 1979	1980	1981
Dan Palmon(b)(c)	40	Associate Professor of Accounting, Rutgers University since September 1980; prior thereto Assistant Professor of Accounting, New York University, Graduate School of Business, for more than five years	1979	-
Ira D. Riklis(a)	27	President of Ice Cream Ira's Inc. and Specialty Store Group, Inc. (established October 1979 and November 1979, respectively), which are engaged in the operation of retail food services; Vice President of Product Development of ARG from January 1978 to October 1979; prior thereto, a student	1981	-
Marcia Riklis(a)	31	Vice President of Rapid since May 1980; Assistant to the Chairman of Rapid from October 1977 to May 1980; prior thereto a student from August 1976 to October 1977	1981	1980

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Name	Age	Principal occupation and related information	Served as director since	Served as officer since
Meshulam Riklis(a)	58	Chairman of the Board and Chief Executive Officer of Rapid for more than the past five years, and President since September 1980; Chairman of the Board of McCrory since June 1981 and President since March 1982, prior thereto Vice Chairman of the Board of McCrory from May 1977 to June 1981; Chairman of the Board of Schenley since January 1982; a director of AITS, Inc. (hotel and casino in Las Vegas, Nevada), for more than the past five years	1955	1955
Leo D. Stone(b)(c)	67	Financial Consultant; Lecturer in Finance, University of South Florida, from September 1974 to June 1981; prior thereto Professor of Finance at Ohio State University; a director of The Sorg Paper Company and Central Reserve Life Corp.	1979	-
Helen H. Updike(b)	41	Chairperson, Department of Economics and Geography, Hofstra University since October 1981; Assistant Professor of Economics, Hofstra University from September 1978 to September 1981; visiting Assistant Professor of Economics, SUNY, Stony Brook, 1977 and 1978	1979	-
Stuart H. Aarons	71	Secretary of Rapid for more than the past five years	-	1972
Bernard J. Blaney	58	Vice President and Treasurer of Rapid for more than the past five years; Director and Vice President-Finance of McCrory since 1977 and Treasurer of McCrory since September 1981	-	1976

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Name	Age	Principal occupation and related information	Served as director since	Served as officer since
Michael J. Magenheim	40	Controller and Assistant Treasurer of Rapid for more than the past five years	-	1972

(a) Member of the Executive Committee.
(b) Member of the Transaction Review Committee.
(c) Member of the Audit Committee

There are no family relationships among any of the directors or executive officers of Rapid, except that Ira D. Riklis, Marcia Riklis and Mona R. Ackerman are Meshulam Riklis' children and Carl H. Lindner, III and S. Craig Lindner are brothers.

The term of office of each director expires at the next annual meeting of Rapid's stockholders or when such director's successor is elected and has duly qualified. Except for the members of the Transactions Review Committee of the Board of Directors, there are no arrangements or understandings between any of the directors of Rapid and any other person pursuant to which such person was selected as a director of Rapid (see Item 3 - "Legal Proceedings - Securities and Exchange Commission"). For a description of the proposed agreement between Riklis Family Corporation and AFC regarding the voting of their shares of Rapid Common Stock for directors of Rapid, see Item 4 - "Security Ownership of Certain Beneficial Owners and Management". There are no standard arrangements for compensating members of the Board of Directors. Members of the Transaction Review Committee each receive $36,000 per annum for serving as directors and members of such Committee and the Chairman of the Committee receives $40,000 per annum. Carl H. Lindner, III and S. Craig Lindner each receive $80,000 per annum for serving as directors and as members of the Executive Committee of the Board of Directors. Mona R. Ackerman, Ira D. Riklis and Marcia Riklis each receive $120,000 per annum for serving as directors and as members of the Executive Committee of the Board of Directors. Each of the executive officers of Rapid holds office at the pleasure of the Board of Directors. There are no arrangements or understandings between any of the executive officers of Rapid and any other person pursuant to which such person was selected as an executive officer of Rapid.

During the past five years, neither Rapid nor any of its officers or directors has been convicted in any criminal proceeding (excluding traffic violations or similar misdemeanors). Except as set forth in Item 3 - "Legal Proceedings - Securities and Exchange Commission", during the past five years, neither Rapid nor any of its officers or directors was a party to a civil proceeding of a judicial or administrative body of competent jurisdiction whereby such party was or is subject to a judgment, decree or final order enjoining further violations of, or prohibiting activities subject to, federal or state securities laws or finding any violation of such laws.

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Item 10. Management Remuneration and Transactions.

The following table sets forth for the fiscal year ended January 31, 1982 the remuneration of the five most highly compensated executive officers and directors of Rapid and the remuneration of all directors and officers as a group:

Name of individual or number of persons in group	Capacities in which served	Salaries, fees, directors' fees, commissions, and bonuses	Securities or property, insurance benefits or reimbursement, personal benefits (1)	Aggregate of contingent forms of remuneration (2)
Meshulam Riklis	Chairman of the Board, President and Chief Executive Officer of Rapid and Chairman of the Board of McCrory	$ 808,510	$ 22,672	-
Daniel J. Manella	Chairman of the Board and Chief Executive Officer of McGregor and Executive Vice President of Rapid	600,000	34,114	-
Isidore A. Becker	Chairman of the Board, and Chief Executive Officer of Schenley and a Vice Chairman of Rapid (3)	525,000	22,256	$ 3,217
Leonard C. Lane	Executive Vice President of Rapid and Chairman of the Board of ILC (4)	480,000	22,031	37,083
Ben Litwak	Chairman and Chief Executive Officer of McCrory Stores Division	475,966	6,122	31,192
All directors and officers as a group (21)		4,609,326	257,552	118,664

(1) Primarily insurance benefits. Does not include interest differential with regard to loans made at less than current prime rates (see "Certain Transactions and Other Matters" below).

(2) The amounts shown are primarily for contractual retirement allowance expense and do not include contributions to the defined benefit pension plans of Rapid and its subsidiaries.

(3) Mr. Becker resigned as director of Rapid and Schenley on February 25, 1982.

(4) Mr. Lane resigned as an officer of Rapid on March 31, 1982. For a description of his severance agreement see "Employment Agreements", below.

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Of the 21 directors and officers as a group, 10 participate in pension plans sponsored by subsidiaries of Rapid. Messrs. Riklis and Manella and six others participate in a McCrory corporate plan. Mr. Becker participates in a Schenley plan and Mr. Litwak participates in a McCrory Stores plan. All of these plans are "career-average" salary plans in which the annual benefit is determined by a summation of a certain percentage of compensation for each year of credited service.

The McCrory corporate plan is a non-contributory defined benefit pension plan. This plan provides for benefits equal to 1% of 1975-1979 average compensation not in excess of $15,000 plus 1.5% of such average compensation in excess of $15,000 for each year of participation up to January 1, 1980 plus 1% of compensation up to the Social Security Wage Base and 1.5% of compensation in excess of the Social Security Wage Base for each year of participation subsequent to 1979. In general, the compensation covered by this plan is total earnings as reported on Form W-2 for each year. Compensation does not, however, include any special bonus. The maximum annual benefit currently provided under this plan is $136,425. The estimated annual benefits payable at retirement at normal retirement age as a straight life annuity to Messrs. Riklis and Manella are $136,425 and $62,100, respectively. The current remuneration covered by this plan for Messrs. Riklis and Manella is $380,531 and $289,730, respectively, and their credited years of service as of January 31, 1982, are 26 and seven years, respectively.

The Schenley plan is a non-contributory defined benefit pension plan. This plan provides for benefits equal to 1% of 1975-1979 average compensation not in excess of $13,000 plus 1.5% of such average compensation in excess of $13,000 for each year of participation up to January 1, 1980 plus 1.2% of compensation up to the Social Security Wage Base and 1.7% of compensation in excess of the Social Security Wage Base for each year of participation subsequent to 1979. The compensation covered by this plan is base salary. The maximum annual benefit currently provided under this plan is $136,425. The estimated annual benefit payable at retirement at normal retirement age as a straight life annuity to Mr. Becker is $108,000. His current remuneration covered by this plan is $350,000, and his credited years of service as of January 31, 1982 is 11 years.

The McCrory Stores plan is a non-contributory defined benefit pension plan. This plan provides for benefits equal to 1% of 1975-1979 average compensation not in excess of $15,000 plus 1.5% of such average compensation in excess of $15,000 for each year of participation up to January 1, 1980 plus 1% of compensation up to the Social Security Wage Base and 1.5% of compensation in excess of the Social Security Wage Base for each year of participation subsequent to 1979. In general, the compensation covered by this plan is total earnings as reported on Form W-2 for each year. Compensation does not, however, include any special bonus. The maximum annual benefit currently provided under this plan is $50,000. The estimated annual benefit payable at retirement, as a straight life annuity to Mr. Litwak is $50,000, who reached normal retirement age in July 1980 and will not accrue any additional benefits under this plan.

The following table sets forth the estimated annual benefits payable upon normal retirement to persons in specified remuneration and

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years-of-service classifications. The retirement benefits are based upon retirement at age 65 under current benefit formulas and payment of a single-life annuity to the employee using the 1982 level of the Social Security wage base.

Covered Earnings During Each Year of Employment	Years of Service and Annual Pension Plan Benefits (In Thousands)											
	10 Years			20 Years			30 Years			40 Years		
	(1)	(2)	(3)	(1)	(2)	(3)	(1)	(2)	(3)	(1)	(2)	(3)
$100,000..	$ 13	$ 15	$ 13	$ 27	$ 31	$ 27	$ 40	$ 46	$ 40	$ 54	$ 62	$ 50
200,000..	28	32	28	57	65	50	85	97	50	114	130	50
300,000..	43	49	43	87	99	50	130	136	50	136	136	50
400,000..	58	66	50	117	133	50	136	136	50	136	136	50
500,000..	73	83	50	136	136	50	136	136	50	136	136	50
600,000..	88	100	50	136	136	50	136	136	50	136	136	50

(1) McCrory corporate plan.
(2) Schenley plan.
(3) McCrory Stores plan.

The benefits shown above are not subject to any deduction for Social Security or other benefits. In addition to the benefits available upon retirement at age 65, these plans also provide for pre-retirement surviving spouse benefits, disability and early retirement benefits, and for vesting upon completion of 10 years of service.

The following table sets forth at January 31, 1982 the maximum estimated retirement benefits (including contractual obligations) payable to the persons and group specified in the remuneration table above:

Name of individual or number of persons in group	Estimated annual retirement benefits		
	Pension Plans	Employment Contracts	Total
Meshulam Riklis	$136,425	-	$136,425
Daniel J. Manella	62,100	-	62,100
Isidore A. Becker	108,000	$ 7,000	115,000
Leonard C. Lane	-	100,000 *	100,000 *
Ben Litwak	50,000	40,000	90,000
All directors and officers as a group (21)	568,748	179,650	748,398

* Severance agreement effective as of April 1, 1982 (see "Employment Agreements", below).

In order to facilitate the performance of their business duties, Rapid provides certain of its officers and directors with the use of corporate owned or leased automobiles, aircraft and hotel accommodations and certain club memberships.

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Employment Agreements

The descriptions which follow of the employment agreements with Messrs. Riklis, Becker, and Lane reflect the modifications required by a Court-approved settlement in a stockholders' derivative action; see Item 3 - "Legal Proceedings - Litigation Related to Compensation and Other Matters".

Meshulam Riklis

Effective November 20, 1977, Rapid renewed its employment contract with Mr. Riklis, as Chief Executive Officer, for an additional period of five years. The contract provides for an annual salary of $375,000, plus incentive compensation at the rate of 1% of Rapid's Consolidated After-Tax Operating Earnings (as defined) in each fiscal year, in excess of $20,000,000, up to a maximum of $100,000,000 per year. Such $375,000 annual salary is payable in any event, even if Mr. Riklis' employment is terminated by death, disability or discharge with or without cause. This contract superseded all previous contracts, with the exception of a contract with McCrory, which provides that under certain circumstances Mr. Riklis would receive from McCrory a retirement allowance of $15,000 per year. The contract also provides for the payment of a retirement allowance for life following the termination of Mr. Riklis' employment at the rate of $100,000 per year, and upon Mr. Riklis' death, payments will continue to his surviving widow, if any, at the rate of $50,000 per year for her life; any pension plan benefits are deducted, and payments are subject to other limits and restrictions on competition with Rapid, and are reduced by the receipt of disability payments. As a condition to such retirement payments Mr. Riklis must be available for advisory services to the extent permitted by his health for a period of up to 12 business days a year. Mr. Riklis and his surviving wife forfeit their retirement benefits if, within one year after termination of employment, Mr. Riklis engages directly or indirectly in any activity competitive with the business of Rapid or any division or subsidiary thereof. In the event of the termination of his employment because of his incapacity, Mr. Riklis is to receive disability benefits at the rate of $100,000 per year for life, less any amounts earned from other employment; in the event of his death, his widow or his surviving children or his estate is to receive death benefits of $500,000, plus one year's incentive compensation (in addition to the incentive compensation earned by, but not yet paid to, Mr. Riklis prior to his death) payable over a 10 year period.

Pursuant to a consulting agreement without a stated maturity which took effect in February 1975, Mr. Riklis was receiving $10,000 per month from Kenton prior to the Merger (see "Introductory Note" above), and after the Merger such arrangment continued in effect.

Daniel J. Manella

Mr. Manella, an Executive Vice President and director of Rapid and a Senior Executive of McCrory, is employed under an employment contract with McCrory effective February 1, 1981 through January 31, 1989. The contract superseded all prior contracts with McCrory and Rapid. The contract provides

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for an annual salary of not less than $350,000 a year and a bonus of $1,000,000 payable in four annual instalments of $250,000 each which commenced in January 1982. If Mr. Manella dies before the entire bonus has been paid, the remaining instalments will be paid to his designees or to his estate. If Mr. Manella terminates his employment before the entire bonus is paid, with or without cause, the remaining instalments of the bonus are forfeited. If Mr. Manella becomes incapacitated for a period of at least 11 consecutive months, and his employment is terminated, he will receive disability benefits of $5,000 a month until his death or recovery, less disability payments under any disability benefit plans. If Mr. Manella dies while employed and is survived by his present wife, she will receive monthly retirement benefits of $2,600 a month beginning when Mr. Manella dies or when he would have become 60 years of age (whichever happens later), until her death, less any pension plan benefits. Mr. Manella forfeits any remaining bonus payments and disability benefits, and his wife forfeits her monthly retirement benefits, if Mr. Manella within two years after termination of his employment engages directly or indirectly, in any activity competitive with McCrory or any of its affiliated companies in which he was involved while employed or if Mr. Manella is discharged for serious misconduct. Deferred compensation of $100,000 earned by Mr. Manella under a prior employment agreement with Rapid will be paid in 60 equal monthly instalments beginning when Mr. Manella's employment ends or when he becomes 60 years old, whichever occurs first.

Isidore A. Becker

Effective as of August 1, 1975, Mr. Becker entered into a five-year employment contract with Schenley which was automatically renewed for an additional period of five years ending July 31, 1985. The contract superseded all other employment contracts between Mr. Becker and Rapid or McCrory. The contract provides for an annual salary of $350,000 per annum and has no provision for deferred compensation. Effective October 19, 1978, the contract was amended to provide for incentive compensation at the rate of 5% of Schenley's annual Operating Profits (as defined), in each fiscal year commencing February 1, 1978, in excess of $53,000,000, up to a maximum of one-half of Mr. Becker's annual salary (presently $350,000). The contract also provides for the payment of a retirement allowance for life following the termination of Mr. Becker's employment for any reason at the rate of $115,000 per year; upon Mr. Becker's death, the retirement payments will continue to his surviving widow, if any, at the rate of $57,500 per year for her life. Any pension plan benefits are deducted from these retirement payments. The payments to Mr. Becker are subject to his availability to render advisory services to Schenley to the extent permitted by his health for a period of up to 12 business days a year and are reduced by receipt of disability payments. In the event of the termination of Mr. Becker's employment because of his incapacity, he is to receive disability benefits at the rate of $75,000 per annum for life. Additionally, his widow or his estate is to receive payments of $375,000, payable over a 10 year period, after his death. On February 25, 1982, Mr. Becker resigned as a director of Rapid and as a director of Schenley.

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Leonard C. Lane

Mr. Lane, a director of Rapid, was employed as a senior executive officer under an employment agreement (the "Employment Agreement") with Rapid, at an annual salary of not less than $240,000, which was terminated on March 31, 1982. Effective October 19, 1978, the Employment Agreement was amended to provide for incentive compensation in each year, commencing January 1, 1978, to the extent of (i) 10% of the annual Operating Profits (as defined) of ILC, in excess of $885,544, and (ii) commencing January 1, 1979 2-1/2% of the Depreciation (as defined) of ILC Services, the equipment leasing division of ILC, up to a maximum of Mr. Lane's annual salary. The Employment Agreement also provided for the payment of a retirement allowance for life following the termination of his employment at the rate of $60,000 per year; certain pension plan benefits were to be deducted, and payments were subject to other limits and restrictions on competition with Rapid, and were to be reduced by receipt of disability payments. As a condition to such retirement payments, Mr. Lane had to be available for advisory services to the extent permitted by his health for a period of up to 12 business days a year. Mr. Lane would have forfeited his retirement benefits if, within one year after termination of employment, he engaged directly or indirectly in any activity competitive with the business of Rapid or any division or subsidiary thereof. In the event that Mr. Lane became incapacitated for 11 consecutive months, Mr. Lane's employment could have been terminated, in which event, he was to receive disability benefits at the rate of $60,000 per year for life, less any amounts earned from other employment. In the event of his death, his widow or his surviving children, if any, or his estate was to receive death benefits of $335,000, payable over a 10 year period. Mr. Lane was authorized to devote a reasonable amount of business time to his personal investments and to consultation in the public or private educational field. Under the Employment Agreement, Mr. Lane had earned an aggregate of $336,250 in deferred compensation as of January 31, 1982. Pursuant to the settlement of a stockholders' derivative action (see Item 3 - "Legal Proceedings-Litigation Related to Compensation and Other Matters" above), Mr. Lane relinquished the right to $45,000 in annual deferred compensation under the Employment Agreement for a five year period commencing April 1978.

In accordance with an agreement (the "Severance Agreement"), dated February 3, 1982, the Employment Agreement and Mr. Lane's employment by Rapid were terminated on March 31, 1982. The Severance Agreement provides that (i) Mr. Lane will continue to participate in Rapid's medical plan until the earlier of March 31, 1992 or his death, (ii) in lieu of the retirement benefits provided for by the Employment Agreement, Mr. Lane will receive monthly retirement benefits at the rate of $100,000 per year for his life and upon his death, the monthly retirement benefits will continue to his present wife, if she survives him and is married to him at the time of his death, during her life at the rate of $50,000 per year, (iii) if Mr. Lane dies prior to March 31, 1992 and his wife does not survive him the monthly retirement benefits at the rate of $50,000 per year shall be paid to Mr. Lane's estate until March 31, 1992, (iv) the deferred compensation under the Employment Agreement will be paid to Mr. Lane or his estate in 60 equal monthly instalments commencing April 30, 1982 and (v) for a period of one year from March 31, 1982, Mr. Lane will not compete with Rapid or its subsidiaries.

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Ben Litwak

Mr. Litwak is employed by McCrory as Chief Executive Officer of its McCrory Stores Division through January 31, 1983 under a contract effective February 1, 1981 at an annual salary of not less than $200,000. The contract supersedes all other employment contracts between Mr. Litwak and McCrory. Mr. Litwak also receives incentive compensation at the rate of 1% of the before-tax earnings (as defined) of the McCrory Stores Division in excess of $20,000,000 for each fiscal year up to a maximum incentive compensation of $300,000 in each fiscal year. Deferred compensation earned before August 1, 1980 under a prior employment agreement totalling $62,500 will be paid to Mr. Litwak, or after his death to his designees or estate, in 30 equal monthly instalments beginning when his employment ends. If Mr. Litwak becomes incapacitated for a period of at least 11 consecutive months, his employment may be terminated. The contract provides for the payment of a retirement allowance to Mr. Litwak of $90,000 a year for life beginning after the termination of his employment, less certain pension payments. Upon Mr. Litwak's death during or after the termination of his employment by McCrory, his present wife, if she survives him, will be paid a retirement allowance of $45,000 a year during her lifetime, less certain pension payments. If Mr. Litwak dies while employed, his base salary for six months will be paid in 60 equal monthly instalments to his present wife, if she survives him, or to certain other persons if she does not. All unpaid incentive compensation, deferred compensation, retirement benefits and death benefits are forfeited by all persons if Mr. Litwak within one year after the termination of his employment engages directly or indirectly in any activity competitive with the McCrory Stores Division or if Mr. Litwak is discharged for serious misconduct.

Harold S. Divine

Mr. Divine, a Vice Chairman of the Board of Rapid and a director of McCrory, is employed as a senior executive under a five year employment contract with McCrory effective February 1, 1980. The contract provides for an annual salary of not less than $300,000. The contract also provides for the payment of an annual retirement allowance for life of $70,000 if Mr. Divine's employment continues to January 31, 1985 or if he is terminated at any time by reason of his disability. Upon Mr. Divine's death the retirement payments will continue to his surviving widow, if any, at a rate equal to 50% of his retirement allowance. McCrory may, in its discretion, terminate the retirement allowance of Mr. Divine and his surviving wife if, within two years after termination of Mr. Divine's employment, he engages directly or indirectly in any activity competitive with the business of McCrory or any of its affiliated companies or if Mr. Divine is discharged for serious misconduct. Certain pension plan benefits and disability payments would be deducted from the retirement allowance. If Mr. Divine becomes incapacitated for a period of 11 consecutive months, the contract provides for disability payments of $70,000 per year. Additionally, in the event of Mr. Divine's death an amount equal to 125% of his annual base salary at the time of his death would be payable over a 10 year period to his widow or his estate. Mr. Divine is authorized to devote a reasonable amount of business time to his personal business, consisting of a wholly-owned sales and marketing company, engaged in the distribution of various consumer products to third parties who

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are unaffiliated with Rapid or any of its subsidiaries, and in the management of his personal investments.

Arie Genger

Mr. Genger, a director of Rapid, entered into an employment agreement (the "Employment Agreement") with McCrory which was terminated on January 31, 1982. The Employment Agreement provided for Mr. Genger to be employed as an executive through January 31, 1987, at an annual salary of not less than $200,000, which increased by $25,000 at the end of each two year period during the initial term of the Employment Agreement. McCrory was obligated under the Employment Agreement to pay Mr. Genger a bonus of not less than $35,000 for the fiscal year ended January 31, 1982, and not less than $10,000 for the fiscal years ending January 31, 1983 and January 31, 1984. The Employment Agreement was automatically renewable for two periods of five years through January 31, 1997, unless 12 months' prior notice of intention not to renew was given by either party prior to the end of the initial seven year term or the extended five year term. In the event Mr. Genger's employment was terminated because of incapacity, he was to receive $50,000 per year for life, which was to be adjusted for cost of living increases and reduced by any payments under McCrory's disability plan. The Employment Agreement provided for a retirement allowance ranging from $45,000 to $80,000 depending upon the length of Mr. Genger's employment, reduced by any pension payments. In the event Mr. Genger died while he was employed or while he was receiving the retirement allowance, Mr. Genger's widow would have received 50% of the retirement allowance during her lifetime. Mr. Genger and his surviving wife would have forfeited their retirement benefits if within one year after termination of employment, Mr. Genger engaged directly or indirectly in any business competitive with the business of McCrory or any of its affiliated companies or if Mr. Genger was discharged for serious misconduct. In addition, McCrory was required to keep in effect $2,000,000 of life insurance (the "Life Insurance") on Mr. Genger's life through January 1987, at which time Mr. Genger or his designee could have acquired the policy. The beneficiary of such policy was designated by Mr. Genger. To acquire the policy, Mr. Genger or his designee would have been obligated to deliver to McCrory a promissory note in the amount of approximately $81,000 payable January 10, 1989, and designate McCrory as beneficiary of the policy to the extent of approximately $92,000.

In accordance with an agreement (the "Severance Agreement"), dated December 1, 1981, the Employment Agreement and Mr. Genger's employment by McCrory were terminated on January 31, 1982. The Severance Agreement provides that (i) McCrory keep the Life Insurance in force and effect in accordance with the terms of the Employment Agreement, (ii) Mr. Genger will continue to participate in McCrory's medical plan for medical services rendered in the United States until the earlier of January 31, 1997 or his death, (iii) Mr. Genger will receive monthly retirement benefits at the rate of $45,000 per year for his life and upon death the monthly retirement benefits will continue to his widow, if she is married to him at the time of his death, during her life at the rate of $22,500 per year, (iv) if Mr. Genger becomes physically or mentally disabled for a period of at least three consecutive months during the period through January 31, 1987, he shall be entitled to receive monthly disability payments as computed in the Employment Agreement for his life or

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until the disability or incapacity ends, and (v) for a period of one year from January 31, 1982, Mr. Genger will not compete with McCrory, Rapid or any of their subsidiaries in which he was involved during his employment under the Employment Agreement.

Bernard J. Blaney

Mr. Blaney, Vice President - Finance, Treasurer and a director of McCrory and Vice President and Treasurer of Rapid, entered into a contract with McCrory effective July 1, 1981, to be employed as an executive through June 30, 1986, which is automatically renewable for an additional period of five years unless six months' prior notice of intention not to renew is given by either party. The contract superseded all prior contracts with McCrory and Rapid. The contract provides for an annual salary of not less than $250,000. If Mr. Blaney becomes incapacitated for a period of at least 11 consecutive months, his employment may be terminated, in which event he is to receive disability benefits at the rate of $50,000 per year, subject to certain reductions, until his 65th birthday. The contract also provides for the payment of a retirement allowance of $40,000 per year, less pension benefits, for life commencing at age 65 (or earlier upon disability), if the term of employment ends on June 30, 1986. In the event the contract is renewed for an additional period of five years the retirement allowance is increased to $50,000 per year. Upon Mr. Blaney's death his present wife, if she survives him, is to receive 50% of the retirement allowance during her lifetime. McCrory may, in its discretion, terminate the retirement allowance if, within one year after termination of Mr. Blaney's employment, he engages directly or indirectly in any activity competitive with the business of McCrory or any of its affiliated companies or if Mr. Blaney is discharged for serious misconduct. After the termination of Mr. Blaney's employment he shall be available for advisory services to the extent permitted by his health for a period of up to 12 business day a year.

Certain Transactions and Other Matters

Mr. Riklis owns all of the capital stock of KGA Industries, Inc. ("KGA"), and Mona R. Ackerman and Marcia Riklis (directors of Rapid) are directors of KGA. KGA is a manufacturer of ladies handbags and belts. In calendar year 1981, purchases by subsidiaries of Rapid of merchandise from KGA, all of which were made in the ordinary course of business, totalled approximately $450,000 (which constituted approximately 14.5% of KGA's sales for such year). In the opinion of management, the purchases of merchandise from KGA were made at prices comparable to those that would be obtained in similar transactions with unrelated parties.

In connection with the termination on January 31, 1978 of two shopping center leases by McCrory and Lerner in Springfield, Virginia, the lessor, Franconia Associates ("Franconia"), a partnership in which Mr. Riklis is the principal partner, became indebted to McCrory for $308,903 and to Lerner for $110,347. As of January 31, 1982, the indebtedness to McCrory and Lerner was $229,563 and $81,958, respectively, payable in 32 constant quarterly payments, bearing interest at the rate of 6% per annum.

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In July 1976, Mona R. Ackerman, Marcia Riklis and Ira D. Riklis (directors of Rapid) acquired substantially all of the beneficial interest in a shopping mall located in Phoenix, Arizona. The mall, which contains approximately 595,000 square feet of floor space, includes a McCrory variety store occupying approximately 31,400 square feet of floor space with a minimum annual rental of $44,000, and a Lerner store occupying approximately 9,400 square feet (reduced from 13,700 square feet on September 1, 1979) of floor space with a minimum annual rental of $21,232. The leases were each entered into during 1963, expire in 1983 and contain two five year renewal options. The respective leases provide that McCrory and Lerner pay a proportionate share of taxes and operating expenses. In addition, the McCrory and Lerner leases provide for additional payments of 4% of gross sales (as defined), less the minimum annual rent, taxes and operating expenses. During the year ended January 31, 1982, McCrory's aggregate rental payment was approximately $76,000 and Lerner's aggregate rental payment was approximately $41,000. Such rentals constituted approximately 5% of the gross rental income of the shopping mall for such year. These leases are, in the opinion of the respective managements of McCrory and Lerner, on terms comparable to those prevailing generally for similar space in the area.

Effective April 1, 1981, Whimsy, Incorporated ("Whimsy"), a subsidiary of McCrory, assigned leases on five of its retail stores, which had previously been closed, to Specialty Store Group, Inc. ("Specialty"), a corporation whose principal stockholder and chief executive officer is Ira D. Riklis. In addition, Whimsy granted an exclusive license to Specialty to use Whimsy's trademarks and trade names and leased to Specialty the equipment located in the five Whimsy stores and certain other equipment used in the Whimsy operation. In consideration therefor, Specialty agreed to pay to Whimsy a fee of 8% of its gross sales (as defined) from the five Whimsy stores, 4% of gross sales from any other stores hereafter operated by Specialty under the Whimsy name, together with 4% of the gross sales of any products sold under the Whimsy name at other locations. Specialty is in the process of calculating the fee which is payable to McCrory for the period from April 1, 1981 through March 31, 1982 (Specialty's fiscal year). In connection with such transaction, Rapid loaned Specialty $500,000 which is repayable in five annual instalments commencing March 31, 1982 of $25,000 (paid), $50,000, $75,000, $100,000 and $250,000, respectively, bearing interest at the prime rate payable quarterly.

On November 1, 1981, Rapid exercised an option and completed the acquisition of the stock of ARG from Hamilton Corporation ("Hamilton") for approximately $6,500,000. When the option was granted Mr. Riklis and his children owned 49% of the capital stock of Hamilton, and, prior to its purchase by Hamilton, Mr. Riklis owned all of the capital stock of ARG through a wholly-owned corporation. During September 1981, Mr. Riklis and his children sold their shares of capital stock of Hamilton to the holder of the balance of the shares. Hamilton acquired the capital stock of ARG on February 2, 1981 for $6,000,000, evidenced by a promissory note payable on October 31, 1981, and guaranteed the payment of certain bank indebtedness and certain other indebtedness.

During the period from March 1981 through September 1981, ARG made certain advances (approximately $2,000,000) to a wholly-owned subsidiary of

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KGA (see description of KGA above). It has not yet been ascertained if such advances were included among the assets Rapid acquired upon its purchase of ARG.

A corporation of which Abraham G. Levin, a director of Rapid, is the Chief Executive Officer and principal stockholder, entered into a consulting contract with Rapid effective February 1, 1981 through January 31, 1985 for services relating to non-legal matters. The contract provides for an annual consulting fee of $300,000 (the first two instalments have been paid), which would continue to be paid for the remaining two years even if Mr. Levin ceases to be Chief Executive Officer of such corporation by reason of death or permanent disability.

For a description of certain indebtedness of Messrs. Riklis, Becker and Lane to Rapid, which arose out of the settlement of a stockholders' derivative action see Item 3 - "Legal Proceedings - Litigation Related to Compensation and Other Matters."

On March 1, 1979, Kenton entered into agreements with Messrs. Harold S. Divine and Daniel J. Manella, directors of Rapid, pursuant to which Kenton issued to each such person 25,000 shares of Kenton Common Stock, for a purchase price of $14.25 per share. Each of them paid $250 in cash for his shares and delivered to Kenton a promissory note for the balance of the purchase price, which note was initially payable June 30, 1980 and bears interest at a rate of 6% per annum. As security for the note, each of such persons has assigned the proceeds of life insurance policies in an amount equal to at least the lesser of the unpaid balance of his note or $250,000. As an incentive for such persons to continue serving as executive officers of Kenton, Kenton agreed that if the earnings of Kenton in future years attain certain specified levels Kenton would defer the payment dates under the notes, forgive all or a portion of such payments, grant bonuses in the amount of the principal forgiven, or permit payment of the notes by the delivery to Kenton of the number of shares issued. As a result of Kenton's earnings during fiscal 1979, $70,000 of indebtedness under each note was forgiven, each became entitled to a cash bonus of $70,000 (which was paid), and the payment date of principal and interest of each note was deferred until June 30, 1982. As a result of the foregoing, at January 31, 1982, Messrs. Divine and Manella were each indebted to Rapid in the principal amount of $286,000. In view of the Merger (see "Introductory Note" above), the parties are discussing a modification of such indebtedness and the bonus arrangement.

In connection with the Merger, Rapid issued an aggregate principal amount of $4,546,000 subordinated notes to certain Kenton stockholders who were officers or directors of Kenton or were affiliated therewith. The notes were issued at the rate of $22.50 principal amount in exchange for each share of Kenton stock held by such persons (in lieu of cash of $22.50 which was paid to the public stockholders of Kenton) and were payable in three annual instalments (25%, 35% and 40%) commencing on January 31, 1982. The notes bore interest payable quarterly at the rate of 10% per annum. During March 1982, Rapid prepaid all of the unpaid balance of such notes including prepayments of $1,485 to Mona R. Ackerman, $1,641,598 to Isidore A. Becker, $421,875 to Harold S. Divine, $219,375 to Arie Genger, $421,875 to Daniel J. Manella and his wife, $1,688 to Ira D. Riklis and $1,485 to Marcia Riklis. In addition,

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the unpaid balance of $661,025 of a 6% note issued in connection with Kenton's acquisition of shares of Rapid Common Stock from Mr. Becker was prepaid during March 1982.

On February 3, 1982, Rapid sold its entire common stock interest in ILC (555,054 shares which represented approximately 74% of the outstanding shares) to Meshulam Riklis (333,032 shares) and to Carl H. Lindner (222,022 shares), Chairman of the Board of AFC (see Item 4 - "Security Ownership of Certain Beneficial Owners and Management" above). In payment for the shares of ILC common stock, Messrs. Riklis and Lindner delivered to Rapid their unsecured promissory notes in the aggregate principal amounts of $3,330,320 and $2,220,220, respectively, each payable on January 31, 1997, and bearing interest at the rate of 10% per year payable semi-annually. Under certain circumstances the maturity dates of the notes can be extended to August 1, 2006. Simultaneously Mr. Riklis sold, for $10 per share in cash, 330,000 shares of ILC common stock to Leonard C. Lane (Chairman of the Board of ILC and a director of Rapid) and 3,032 shares to ILC and Mr. Lindner sold, for $10 per share in cash, 101,750 shares of ILC common stock to Mr. Lane and 2,022 shares to ILC. During March 1982, as a result of a merger of ILC, pursuant to which the other stockholders of ILC received $10 per share in cash in exchange for their shares of ILC, 78-1/2% of the outstanding shares of ILC common stock became owned by Mr. Lane and the balance, 21-1/2% of ILC common stock became owned by Mr. Lindner. In addition, Mr. Riklis has the right through February 1987 to buy from Mr. Lane 118,250 shares of ILC common stock (currently representing 21-1/2% of the outstanding shares). In connection with the merger, Rapid's intercompany receivable from ILC of approximately $7,450,000 was exchanged for approximately 74,500 shares of a newly created ILC redeemable preferred stock. For the accounting treatment afforded the foregoing transaction and terms of the preferred stock reference is made to Note 3 to Financial Statements.

On February 3, 1982 (reflected in the Financial Statements as of January 31, 1982), pursuant to the terms of a loan agreement, Leonard C. Lane borrowed $6,250,000 from Rapid. The loan is due on August 1, 2006 and bears interest at the rate of 10% per year payable semi-annually. Mr. Lane has secured his obligations under the loan by pledging with Rapid $6,250,000 principal amount of Rapid 10% Sinking Fund Subordinated Debentures, due August 1, 2006 (the "Debentures"). If there is a default in the payment of interest or principal by Mr. Lane, Mr. Lane has the right to transfer the Debentures to Rapid and thereafter Rapid will have no recourse against him for the interest or principal on the note. At any time after December 31, 1994, Rapid may in its sole and absolute discretion accept the Debentures in whole or in part at their principal amount, including any accrued interest thereon, for sinking fund purposes in satisfaction of the principal amount of the loan.

During December 1981, Isidore A. Becker (then Vice Chairman of the Board of Rapid) borrowed $2,000,000 from Rapid. The loan is unsecured and is evidenced by Mr. Becker's non-interest bearing promissory note payable on demand. Rapid has been advised that the proceeds of the loan were in turn advanced to an entity in which Mr. Becker and members of his family own approximately 24% of the outstanding capital stock and in which Mr. Riklis owns approximately 50% of such capital stock.

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During May 1981, Daniel J. Manella (director and Executive Vice President of Rapid) borrowed $200,000 from Rapid. The loan is unsecured and is evidenced by Mr. Manella's non-interest bearing promissory note due on January 31, 1983.

During December 1981, pursuant to the terms of a loan agreement, Arie Genger, a director of Rapid, borrowed $1,200,000 from McCrory. The loan is evidenced by Mr. Genger's promissory note due on May 15, 1994, and bearing interest at the rate of 7% per year payable semi-annually. Mr. Genger has the right at any time prior to January 1, 1985 to secure the note by pledging with McCrory an aggregate of $1,200,000 principal amount of (i) publicly trading debt obligations of McCrory or Rapid having maturity dates on or before May 15, 1994, (ii) fixed dollar obligations of the United States of America having maturity dates on or before May 15, 1994, or (iii) traded debt obligations listed on the New York Stock Exchange having maturity dates on or before May 15, 1994 and which are rated at least "A" by Moody's Investors Service (the "Collateral"). If after the Collateral is pledged there is a default in the payment of interest or principal by Mr. Genger, Mr. Genger has the right to transfer the Collateral to McCrory and thereafter McCrory will have no recourse against him for the interest or principal on the note.

During October 1981, pursuant to the terms of a loan agreement, Bernard J. Blaney, director, Vice President-Finance and Treasurer of McCrory and Vice President and Treasurer of Rapid, borrowed $600,000 from McCrory. The loan is evidenced by Mr. Blaney's promissory note, due on August 1, 2006, and bearing interest at the rate of 10% per year payable semi-annually. Mr. Blaney has the right at any time prior to January 1, 1984 to secure the note by pledging with McCrory $600,000 principal amount of Rapid 10% Sinking Fund Subordinated Debentures, due August 1, 2006 (the "Debentures"). If after the Debentures are pledged there is a default in the payment of interest or principal by Mr. Blaney, Mr. Blaney has the right to transfer the Debentures to McCrory and thereafter McCrory will have no recourse against him for the interest or principal on the note.

Carl H. Lindner, the principal stockholder of AFC, is currently paid at the rate of $80,000 per annum for consulting services rendered to Rapid.

During the fiscal year ended January 31, 1982, Rapid and its subsidiaries paid to Messrs. Rubin Baum Levin Constant & Friedman, general counsel to Rapid, of which Abraham G. Levin, a director of Rapid, is the senior partner, $2,105,000 for services rendered during the current year and the prior year. In addition, during such fiscal year Rapid paid to Messrs. Rubin Baum Levin Constant & Friedman $297,000 for services rendered to Kenton (see "Introductory Note" above) in prior years.

McCrory Stores leases certain properties from wholly-owned corporations of the McCrory Stores Pension Plan. Pursuant to such leases, during the year ended January 31, 1982, rentals of approximately $650,000 were paid.

During the year ended January 31, 1982, Lerner paid to the Lerner's Employees Retirement Trust rentals of approximately $43,000, covering three locations leased by Lerner. Lerner at its option may purchase, or at the option of said Trust may be required to purchase, two premises under lease for

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a total of approximately $220,000. Of this amount, approximately $120,000 applies to a location previously sold to said Trust by Lerner at the same price.

During the year ended January 31, 1982, Otasco paid to the Otasco Employees Retirement Trust rentals of approximately $334,000 covering locations leased by Otasco from such Trust.

In the opinion of management, the terms of the leases referred to in the preceding three paragraphs are comparable to those prevailing generally for similar space in the areas in which such properties are located.

PART IV

Item 11. Exhibits, Financial Statement Schedules, and Reports on Form 8-K.

(a) See Index to Financial Statements and Schedules on Page F-1.

(b) No reports on Form 8-K were filed during the last quarter of the fiscal year ended January 31, 1982.

(c) See Index to Exhibits on Page E-1.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

RAPID-AMERICAN CORPORATION
(Registrant)

By B. J. BLANEY
Bernard J. Blaney
Vice President and Treasurer

Dated: April 30, 1982

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the date indicated:

Principal Executive Officer:

Meshulam Riklis
Chairman of the Board

Principal Financial and Accounting Officer:

Bernard J. Blaney
Vice President and Treasurer

Directors:

Mona R. Ackerman
Harold S. Divine
Seymour Kleinman
Leonard C. Lane
Abraham G. Levin
Carl H. Lindner, III
S. Craig Lindner
Robert C. Lintz
Daniel J. Manella
Dan Palmon
Ira D. Riklis
Marcia Riklis
Meshulam Riklis
Leo D. Stone
Helen H. Updike

By STUART H. AARONS
Stuart H. Aarons
Attorney-in-fact

Dated: April 30, 1982

Original powers of attorney authorizing Bernard J. Blaney and Stuart H. Aarons, and each of them, to sign this report and any amendments hereto on behalf of certain directors and officers of the Registrant have been filed with the Securities and Exchange Commission.

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RAPID-AMERICAN CORPORATION

INDEX TO FINANCIAL STATEMENTS AND SCHEDULES

Schedules

Schedules Omitted

Schedules, other than those listed above, are omitted because of the absence of the conditions under which they are required, or because the information required therein is set forth in the financial statements or the notes thereto.

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Deloitte Haskins+Sells

One World Trade Center
New York, New York 10048
(212) 669-5000
International Telex 66272

To the Board of Directors of
Rapid-American Corporation:

We have examined the consolidated financial statements and supplemental schedules of Rapid-American Corporation and its consolidated subsidiaries, listed in the accompanying index. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We did not examine the financial statements of certain consolidated subsidiaries, which statements reflect revenues constituting 27%, 28% and 28%, respectively, of consolidated revenues for the years ended January 31, 1982, 1981 and 1980. Such financial statements were examined by other auditors whose reports thereon have been furnished to us, and our opinion expressed herein, insofar as it relates to the amounts included for such consolidated subsidiaries, is based solely upon the reports of the other auditors.

As discussed in Note 13 to the financial statements, substantial damages are being sought against Rapid-American Corporation and certain of its subsidiaries in various actions and claims. The ultimate outcome of such actions and claims cannot presently be determined, and no provision for any liability that may result has been made in the financial statements.

In our opinion, subject to the effects on the consolidated financial statements of such adjustments, if any, as might have been required had the outcome of the uncertainties referred to in the preceding paragraph been known, and based upon our examinations and the reports of other auditors, the accompanying consolidated financial statements present fairly the financial position of the companies at January 31, 1982 and 1981 and the results of their operations and the changes in their financial position for each of the three years in the period ended January 31, 1982, in conformity with generally accepted accounting principles applied on a consistent basis. Also, in our opinion, the supplemental schedules, when considered in relation to the basic consolidated financial statements, present fairly in all material respects the information shown therein.

DELOITTE HASKINS & SELLS

March 31, 1982

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March 31, 1982

OPINION OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors
Lerner Stores Corporation
New York, New York

We have examined the consolidated balance sheet of Lerner Stores Corporation and subsidiaries as of January 31, 1982 and the related statements of income, stockholder's equity and changes in financial position for the year then ended (none of which is presented separately herein). Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements referred to above present fairly the financial position of Lerner Stores Corporation and subsidiaries at January 31, 1982 and the consolidated results of their operations and changes in their financial position for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

TOUCHE ROSS & CO.
CERTIFIED PUBLIC ACCOUNTANTS

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Ernst & Whinney

153 East 53rd Street
New York, New York 10022

212/888-9100

To the Board of Directors
Lerner Stores Corporation
New York, New York

We have examined the following consolidated financial statements and related schedules of Lerner Stores Corporation and subsidiaries (none of which is presented separately herein):

Consolidated Balance Sheet as of January 31, 1981

Consolidated Statements of Income for the years ended January 31, 1981 and 1980

Consolidated Statements of Stockholder's Equity for the years ended January 31, 1981 and 1980

Consolidated Statements of Changes in Financial Position for the years ended January 31, 1981 and 1980

Schedules for the years ended January 31, 1981 and 1980,
V--Property, Plant and Equipment
VI--Accumulated Depreciation and Amortization of Property, Plant and Equipment

Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the consolidated financial position of Lerner Stores Corporation and subsidiaries at January 31, 1981, and the consolidated results of their operations and changes in their financial position for the years ended January 31, 1981 and 1980 in conformity with generally accepted accounting principles applied on a consistent basis. Further, it is our opinion that the schedules listed above present fairly the information set forth therein in compliance with the applicable accounting regulation of the Securities and Exchange Commission.

ERNST & WHINNEY

New York, New York
March 26, 1981

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Samson Bélair

Chartered accountants

REPORT OF CHARTERED ACCOUNTANTS

To Schenley Canada Inc.

We have examined the consolidated financial statements of Schenley Canada Inc. and its wholly-owned subsidiary companies as at January 31, 1981 and for the years ended January 31, 1981 and 1980 and the schedules for the two years ended January 31, 1981. Our examinations were made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, based upon our examinations, the consolidated balance sheet and statements of consolidated income and retained earnings and of changes in consolidated financial position (all of which are not presented separately herein) present fairly the financial position of Schenley Canada Inc. and its wholly-owned subsidiary companies as at January 31, 1981 and the results of their operations and the changes in their financial position for the years ended January 31, 1981 and 1980 in conformity with generally accepted accounting principles applied on a consistent basis; and the schedules for the two years ended January 31, 1981 (which are included in the consolidated schedules listed in the accompanying index and are not presented separately herein), when considered in relation to the basic financial statements, present fairly in all material respects the information shown therein.

SAMSON BELAIR

Chartered Accountants

Montreal, March 6, 1981

Québec Montréal Ottawa Toronto
Calgary Edmonton Vancouver Rimouski
Trois-Rivières Sherbrooke Saint-Hyacinthe Gatineau
Kitchener Sept-Iles Matane Gaspé
Coaticook Amos Hinton

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RAPID-AMERICAN CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

ASSETS	January 31, 1982 (In Thousands)	January 31, 1981 (In Thousands)
CURRENT ASSETS:		
Cash	$ 19,472	$ 29,507
Temporary investments, at cost which approximates market	140,735	57,232
Trade receivables, less allowances ($3,777,000 and $3,879,000)	125,880	178,273
Inventories	524,023	577,178
Other receivables, prepaid expenses, etc.	48,156	41,274
Total current assets	858,266	883,464
INVESTMENTS AND ADVANCES:		
Otasco Credit Corporation, at equity	20,468	16,964
Other investments, etc., substantially at equity	19,810	18,377
Total investments and advances	40,278	35,341
PROPERTY, PLANT AND EQUIPMENT:		
Land	27,874	11,907
Buildings, store properties and warehouses	145,827	137,790
Furniture, fixtures and leasehold improvements	257,343	255,670
Machinery and equipment	87,480	96,334
Total - at cost	518,524	501,701
Less accumulated depreciation and amortization	227,068	239,771
	291,456	261,930
Capital leases, less accumulated amortization	46,808	54,876
Property, plant and equipment - net	338,264	316,806
OTHER ASSETS:		
Excess of cost of investments over related equities, less accumulated amortization ($35,655,000 and $31,448,000)	246,689	247,032
Franchises, less accumulated amortization ($3,713,000 and $3,314,000)	46,287	46,686
Trademarks	2,930	2,939
Deferred charges, mortgages and sundry	34,730	29,417
Total other assets	330,636	326,074
TOTAL	$1,567,444	$1,561,685

See Notes to Financial Statements.

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RAPID-AMERICAN CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

LIABILITIES AND STOCKHOLDERS' EQUITY	January 31, 1982	January 31, 1981
	(In Thousands)	
CURRENT LIABILITIES:		
Accounts payable	$ 160,527	$ 162,636
Accrued expenses and sundry	160,197	182,455
Accrued Federal and foreign income taxes	35,479	40,268
Current maturities of long-term debt	31,335	20,196
Short-term debt	5,850	1,850
Capital lease obligations	7,364	8,220
Total current liabilities	400,752	415,625
LONG-TERM DEBT, LESS CURRENT MATURITIES AND UNAMORTIZED DISCOUNT	881,004	855,170
OTHER NON-CURRENT LIABILITIES:		
Deferred income taxes	88,498	72,414
Capital lease obligations	65,343	75,729
Reserves for store closings	9,999	18,151
Other	36,417	34,127
Total other non-current liabilities	200,257	200,421
MINORITY INTEREST IN SUBSIDIARIES	15,172	15,526
PREFERRED AND COMMON STOCKHOLDERS' EQUITY:		
Capital stock:		
Preferred stock (aggregate redemption and liquidation preference $11,788,000)	1	1
Common stock, $.01 par value, authorized and outstanding 2,435,607 shares	24	24
Additional paid-in capital	69,903	71,502
Retained earnings	331	3,416
Total preferred and common stockholders' equity	70,259	74,943
TOTAL	$1,567,444	$1,561,685

See Notes to Financial Statements.

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RAPID-AMERICAN CORPORATION AND SUBSIDIARIES

STATEMENTS OF CONSOLIDATED INCOME

	Year Ended January 31,		
	1982	1981	1980
	(In Thousands, Except Per Share Amounts)		
REVENUES:			
Net sales	$2,645,914	$2,588,674	$2,603,865
Other - net	29,758	14,556	9,186
	2,675,672	2,603,230	2,613,051
COSTS AND EXPENSES:			
Cost of goods sold	1,872,308	1,863,508	1,866,936
Selling, general and administrative expenses	568,562	539,296	530,337
Interest and debt expense	161,258	117,607	122,588
Depreciation and amortization	33,901	32,377	29,857
Nonrecurring item - principally foreign exchange loss on sale of Canadian alcoholic beverage operations	6,337		
	2,642,366	2,552,788	2,549,718
INCOME BEFORE PROVISION FOR INCOME TAXES	33,306	50,442	63,333
PROVISION FOR INCOME TAXES (Including, in 1982, a nonrecurring provision of $9,748,000 related to sale of Canadian alcoholic beverage operations)	26,351	22,876	28,730
NET INCOME	6,955	27,566	34,603
CONSOLIDATED PREFERRED DIVIDEND REQUIREMENTS	1,999	9,307	3,616
NET INCOME APPLICABLE TO COMMON STOCKHOLDERS	$ 4,956	$ 18,259	$ 30,987
INCOME PER SHARE OF COMMON STOCK:			
Primary	$2.03	$3.55	$4.55
Fully Diluted	$2.03	$3.38	$4.02

See Notes to Financial Statements.

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RAPID-AMERICAN CORPORATION AND SUBSIDIARIES
STATEMENTS OF CONSOLIDATED PREFERRED AND COMMON STOCKHOLDERS' EQUITY

	Convertible Preferred Stocks	Preferred Stock	Common Stock	Additional Paid-In Capital	Retained Earnings
			(In Thousands)		
Balance, February 1, 1979	$ 6,088		$ 7,074	$174,035	$ 29,623
Net income					34,603
Cash dividends declared on:					
$3.00 redeemable preference stock					(2,004)
Convertible preferred stocks..					(656)
Common stock ($.60 per share).					(3,864)
Conversion of preferred stocks..	(931)		112	819	
Common and preferred stocks acquired in exchange for $3.00 redeemable preference stock	(1,467)		(2,052)	(41,488)	(8,429)
Common stock purchased in odd-lot tender			(26)	(489)	
Equity in certain transactions of subsidiaries				29	(590)
Other			(10)	(66)	(40)
Balance, January 31, 1980	3,690		5,098	132,840	48,643
Net income					27,566
Cash dividends declared on:					
$3.00 redeemable preference stock					(8,015)
Convertible preferred stocks..					(253)
Common stock ($.60 per share).					(3,090)
Conversion of preferred stocks..	(354)		132	222	
Redemption of preferred stocks..	(3,133)			(249)	(2,875)
Rapid-Kenton merger and warrant exchange offer	(203)	$ 1	(5,206)	(61,311)	(57,792)
Equity in certain transactions of subsidiaries					(591)
Other					(177)
Balance, January 31, 1981	-	1	24	71,502	3,416
Net income					6,955
Cash dividends declared on:					
Preferred stock ($10.00 per share)					(1,179)
Common stock ($1.00 per share)					(2,436)
Distribution of ILC Industries common stock					(2,566)
Rapid-Kenton merger and warrant exchange offer adjustments ...				(1,499)	(2,125)
Cancellation of debenture purchase warrants				(100)	
Equity in certain transactions of subsidiaries					(1,734)
Balance, January 31, 1982		$ 1	$ 24	$ 69,903	$ 331

See Notes to Financial Statements.

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RAPID-AMERICAN CORPORATION AND SUBSIDIARIES

STATEMENTS OF CHANGES IN CONSOLIDATED FINANCIAL POSITION

	Year Ended January 31,		
	1982	1981	1980
	(In Thousands)		
FUNDS PROVIDED:			
Operations:			
Net income	$ 6,955	$ 27,566	$ 34,603
Nonrecurring item, principally foreign exchange loss on sale of Canadian alcoholic beverage operations	6,337		
Items not currently requiring funds:			
Depreciation and amortization	45,886	39,623	39,972
Deferred income taxes	15,469	8,126	8,212
Other - net	7,053	1,399	9,469
Funds provided by operations	81,700	76,714	92,256
Increases in long-term debt	109,637	154,703	70,654
Issuance of $3.00 redeemable preference stock			53,436
Disposals of property, plant and equipment	12,098	11,049	6,085
Working capital acquired upon acquisitions	2,056		3,729
	205,491	242,466	226,160
FUNDS APPLIED:			
Decreases in long-term debt	90,978	91,667	111,334
Additions to property, plant and equipment	82,893	56,957	60,289
Decrease in capital lease obligations.	10,386	10,026	8,320
Acquisition of common, preference and preferred stocks and warrants	3,624	163,166	53,951
Cash dividends	3,615	11,358	6,524
Decrease in non-current reserves relating to store closings	3,909	6,435	6,857
Advance to Otasco Credit Corp.	3,000	1,000	
Loans to directors and officers - net.	4,090		
Investment in American Recreation Group	6,496		
Cash dividends paid by subsidiaries	1,734	591	590
Acquisition of Kenton - net		24,661	
Investment in McGregor-Doniger Inc.			4,189
Other - net	5,091	1,779	(8,963)
	215,816	367,640	243,091
DECREASE IN WORKING CAPITAL	$(10,325)	$(125,174)	$(16,931)

See Notes to Financial Statements.

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RAPID-AMERICAN CORPORATION AND SUBSIDIARIES

STATEMENTS OF CHANGES IN CONSOLIDATED FINANCIAL POSITION (Concluded)

	Year Ended January 31, 1982	1981	1980
	(In Thousands)		
INCREASE (DECREASE) IN WORKING CAPITAL BY COMPONENTS:			
Cash	$(10,035)	$ 5,020	$(12,152)
Temporary investments	83,503	22,902	(15,245)
Trade receivables, less allowances	(52,393)	(32,085)	6,983
Inventories	(53,155)	(42,310)	3,273
Other receivables, prepaid expenses, etc.	6,882	365	2,162
Accounts payable	2,109	(40,926)	(12,400)
Accrued expenses and sundry	22,258	(32,348)	(2,477)
Accrued Federal and foreign income taxes	4,789	6,793	(1,562)
Current maturities of long-term debt	(11,139)	(12,045)	13,261
Short-term debt	(4,000)	(1,850)	
Capital lease obligations	856	1,310	1,226
DECREASE IN WORKING CAPITAL	$(10,325)	$(125,174)	$(16,931)

See Notes to Financial Statements.

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include (i) Rapid and its divisions, Territory Financial, International Health, Leeds Travelwear (phased out during the year ended January 31, 1980) and Rapid Electrotype; (ii) McCrory Corporation and its divisions and subsidiaries, including Lerner Stores Corporation and subsidiaries, Otasco, Inc. and subsidiaries, J. J. Newberry Co. and subsidiaries and all other subsidiaries, exclusive of Otasco Credit Corporation, a non-significant financing subsidiary (see Note 3), which is carried at equity; (iii) Schenley Industries, Inc. and its subsidiaries; (iv) McGregor-Doniger Inc. and its divisions; (v) Melville Knitwear Co., Inc., its divisions and subsidiaries; (vi) Plastic Toy and Novelty Corp; (vii) Shenandoah Corporation; (viii) American Recreation Group, Inc. (from November 1, 1981, date of acquisition); and (ix) certain other subsidiaries whose assets and operations in the aggregate are not significant.

The consolidated balance sheet at January 31, 1981 includes the assets and liabilities of Kenton Corporation and its subsidiaries, acquired as of January 31, 1981 and accounted for as a purchase (see Note 2).

To facilitate comparisons with the current year, certain amounts in prior years have been reclassified.

Minority interest in consolidated subsidiaries consisted of preferred and preference stocks of subsidiaries not held by Rapid and its subsidiaries.

INVENTORIES

The last-in, first-out ("LIFO") method of valuing substantially all inventories is used. The LIFO inventory amount at January 31, 1982, 1981 and 1980 was less than the first-in, first-out inventory amount by approximately $104,900,000, $82,800,000 and $56,200,000, respectively.

Whiskey, other spirits and wine inventories in bond, classified as current assets in accordance with the general practice of the industry, include inventories, which, in the normal course of business, will remain in storage to be aged for periods exceeding one year. It is not possible to state the amount of inventory which will be realized within one year. The inventories in bond are subject to payment of excise taxes upon removal from government controlled premises.

Net sales and cost of goods sold include Federal excise taxes, import duties and state liquor taxes of approximately $188,800,000, $237,100,000 and $266,000,000, respectively, for the years ended January 31, 1982, 1981 and 1980.

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PROPERTY, PLANT AND EQUIPMENT

It is the policy of Rapid and its subsidiaries to provide for depreciation of depreciable properties at rates designed to extinguish the cost thereof over the estimated service lives of the properties. The approximate annual rates of depreciation and amortization, which have been computed generally using the straight-line method, are as follows:

	Rates of Depreciation and Amortization
Buildings, etc.	2 to 20%.
Furniture, fixtures and automobiles	2-1/2 to 50%.
Machinery and equipment	4 to 50%.
Leased property and equipment under capital leases	Term of lease.
Leasehold improvements	Term of lease or estimated service life of improvement, whichever is less.

Expenditures for maintenance and repairs are charged to income or costs of production as incurred. Expenditures for renewals which extend the estimated service lives of the properties, and the cost of betterments of such properties, are charged to the appropriate fixed asset accounts.

At the time of sale or disposition of assets, the cost and related accumulated depreciation or amortization are eliminated from the accounts, and any gains or losses are reflected in income.

EXCESS OF COST OF INVESTMENTS OVER RELATED EQUITIES AND FRANCHISES

The excess of cost of investments over related equities which arose from acquisitions prior to October 31, 1970, amounting to $112,730,000 and $112,733,000 at January 31, 1982 and 1981, respectively, has been recognized as being similar in nature to intangibles, which have not declined in value since acquisition. In accordance with Accounting Research Bulletin 43, these excess costs have not been amortized or written down as, in the opinion of management, there has not been any permanent impairment in the value of the related investments (see Note 5). Franchises which consist of Schenley contracts to import whiskies, liquors, and other distilled spirits, have continuing value and are not being amortized, except for the portion acquired subsequent to October 31, 1970.

Pursuant to certain opinions of the Accounting Principles Board, the excess of cost of investments over related equities which arose from acquisitions subsequent to October 31, 1970, amounting to $133,959,000 (after

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accumulated amortization of $35,655,000) at January 31, 1982 and $134,299,000 (after accumulated amortization of $31,448,000) at January 31, 1981 and the portion of franchises, amounting to $12,232,000 (after accumulated amortization of $3,713,000) at January 31, 1982 and $12,631,000 (after accumulated amortization of $3,314,000) at January 31, 1981, acquired subsequent to October 31, 1970 are being amortized using the straight-line method over forty years (see Note 5). These excess costs and franchises have not been otherwise written down, as, in the opinion of management, there has not been any permanent impairment in the value of the related investments.

EXCESS OF NET ASSETS ACQUIRED OVER RELATED COSTS

The excess of net assets acquired over related costs, amounting to $526,000 and $3,016,000 at January 31, 1982 and 1981, respectively, (after accumulated amortization and other adjustments of $24,247,000 and $21,757,000, respectively) in the acquisition of J. J. Newberry Co. in 1972, which was attributed to property accounts, has been included in accumulated depreciation and amortization, and is being amortized (as a reduction of depreciation) over a ten year period, the estimated useful life of the property.

2. RAPID-KENTON MERGER

On January 31, 1981, Rapid-American Corporation ("Old Rapid") merged into Kenton Corporation ("Kenton"), which as the surviving corporation changed its name to Rapid-American Corporation ("Rapid"). Upon consummation of the merger, holders of Old Rapid common stock and $3.00 redeemable preference stock, other than Kenton and American Financial Corporation and certain of its subsidiaries ("AFC"), received, for each share, $45 principal amount of Rapid 10% subordinated sinking fund debentures due August 1, 2006 ("10% Debentures") together with $.75 in cash, and an additional $2.25 in cash, which represented accrued interest on the 10% Debentures for the period between August 1, 1980 and January 31, 1981. An additional $.25 per share was distributed in August 1981 upon court approval of the settlement of certain litigation.

As a condition precedent to the merger, Old Rapid called for redemption its outstanding shares of $3.00 and $3.15 convertible preferred stocks, 53,342 shares and 3,626 shares, respectively, at a redemption price of $105 plus accrued dividends to March 2, 1981, the date of redemption. Such preferred stockholders had the right, in lieu of accepting the redemption amount, to receive the same consideration as they would have received had they converted their shares into common stock prior to the merger.

Kenton stockholders, other than Meshulam Riklis ("Riklis"), Chairman of the Board, President and Chief Executive Officer of Rapid, two Trusts created by him for the benefit of members of his family (the "Riklis Family Trusts"), AFC, and the officers and directors of Kenton and certain related parties ("Kenton Management"), received for each share of common stock of Kenton and for each share of 6% cumulative preferred stock of Kenton, $22.50 in cash. An additional $.22 per share was distributed in August 1981 upon court approval of

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certain litigation. Kenton management received 10% subordinated notes of Rapid in the principal amount of $22.50 for each share of Kenton common stock.

In exchange for their respective interests, Riklis and the Riklis family interests received 11,250 shares of new preferred stock and 1,461,364 shares of new common stock and AFC received 106,625 shares of new preferred stock and 974,243 shares of new common stock. The new preferred stock was redeemed in March 1982.

The merger was accounted for as a purchase by Rapid of Kenton's assets and assumption of its liabilities. The 10% Debentures were issued after provision for original issue discount of 50% of principal amount. The accompanying consolidated balance sheets reflect such transaction together with the warrant exchange offer (see below). Had Kenton been acquired on February 1, 1979, the unaudited pro-forma net sales, net income and primary earnings per share of common stock for the years ended January 31, 1981 and 1980 would have been $2,639,000,000, $5,697,000 and $1.50 per share; and $2,658,000,000, $15,439,000 and $5.71 per share, respectively. Unaudited pro-forma ratios of earnings to fixed charges and preferred dividends combined for the years ended January 31, 1981 and 1980 would have been 1.06 and 1.16, respectively.

Prior to the merger, each Old Rapid warrant entitled its holder to purchase one share of Old Rapid common stock at an exercise price of $35 per share. As a result of the merger, the warrants are now exercisable for $45 principal amount of 10% Debentures, together with $3.25 in cash at the same exercise price ($35). The warrants are redeemable, at Rapid's option, at $20 per warrant and expire May 15, 1994. In addition, the indentures relating to Rapid's 7-1/2% sinking fund subordinated debentures, due 1985 and 12% sinking fund subordinated debentures, due 1999, provide that these debentures may be applied at their face amount upon exercise of the warrants.

On February 2, 1981, Rapid offered to exchange $10 principal amount of 10% Debentures, together with $.67 in cash for each warrant. This offer expired on April 20, 1981, and approximately 4,500,000 warrants were tendered in exchange for approximately $45,000,000 principal amount of 10% Debentures and $3,000,000 in cash.

3. INVESTMENTS AND ADVANCES

Otasco Credit Corporation - Otasco, Inc. has a financing agreement with Otasco Credit Corporation under which Otasco, Inc. sells substantially all of its customers' accounts receivable to Otasco Credit Corporation. Otasco, Inc. receives 90% of the amount of accounts receivable sold and repurchases accounts receivable in default, as defined. Otasco, Inc.'s 10% equity in accounts receivable sold is included in trade receivables in the consolidated balance sheets.

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The condensed balance sheets of Otasco Credit Corporation at January 31, 1982 and 1981 were as follows:

	January 31, 1982	January 31, 1981
	(In Thousands)	
Assets:		
Customers' accounts receivable purchased net of 10% withheld pending collection ($8,192,000 and $7,365,000)	$73,724	$66,287
Cash	5,759	8,671
Total assets	79,483	74,958
Liabilities:		
Notes payable to banks	57,500	56,000
Accrued interest and sundry	1,066	1,653
Due to affiliated companies	449	341
Total liabilities	59,015	57,994
Rapid's carrying value (including subordinated notes payable to McCrory of $18,000,000 and $15,000,000)	$20,468	$16,964

Net income of Otasco Credit Corporation was $504,000, $382,000 and $278,000, respectively, for the years ended January 31, 1982, 1981 and 1980 and has been included in consolidated net income.

Otasco Credit Corporation has an agreement with a regional bank group for a revolving credit line in the aggregate principal amount of $75,000,000, expiring on July 31, 1984 and secured by substantially all of Otasco, Inc.'s trade accounts receivable. The agreement provides, among other things, for an interest rate of 1/2 of 1% above the prime rate and maintenance of compensating balances equal to 10% of the borrowings at January 31, 1982. At January 31, 1982, 1981 and 1980 the prime interest rates were 16.25%, 20.5%, and 15.75%, respectively. The average amount of notes payable to banks outstanding during the years ended January 31, 1982, 1981 and 1980 were approximately $57,800,000, $53,300,000 and $44,200,000, respectively, and the weighted average interest rates were approximately 19.1%, 15.9% and 13.6%, respectively.

ILC Industries, Inc. - At January 31, 1982 and 1981, Rapid owned 555,054 shares (74%) of ILC common stock. Rapid's investment in ILC, including loans and advances and equity in undistributed earnings, was approximately $11,800,000, and $10,000,000 at January 31, 1982 and 1981, respectively. ILC reported net income of $1,969,000, $1,984,000 and $2,124,000 for the years ended December 31, 1981, 1980 and 1979, respectively.

On February 3, 1982, reflected in the financial statements as of January 31, 1982, Rapid sold its common stock investment in ILC to Meshulam Riklis and Carl Lindner in exchange for $5,550,540 in notes bearing interest at 10% per annum and payable January 31, 1997. (See Item 10 - page 63 -"Management Remuneration and Transactions - Certain Transactions and Other

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Matters" which is an integral part of these financial statements). The difference ($2,566,000) between Rapid's carrying value of the common stock of ILC and the present value of the notes was reflected as a distribution since the purchasers are the beneficial owners of Rapid common stock. Subsequently, in connection with a merger of ILC with another entity, Rapid exchanged the indebtedness due from ILC in the amount of approximately $7,450,000 for ILC preferred stock. Rapid received approximately 74,500 shares of ILC preferred stock (included in Investments and Advances - other investments), having a liquidation and redemption value of $100 per share, which provides for quarterly non-cumulative dividends at the annual rate of $6.00 per share per year; restricts dividends on all common stock to an amount equal to the amount paid on the preferred stock, requires redemption of the preferred stock in an amount equal to 30% of the earnings before Federal income taxes of the company (as defined) in excess of $3,500,000; and redemption of all preferred stock under certain other conditions.

Separate financial statements have not been presented for any non-consolidated subsidiary since, considered in the aggregate as a single subsidiary, they do not constitute a "significant subsidiary".

4. INVENTORIES

Inventories at the lower of cost or market consisted of the following:

	January 31, 1982	January 31, 1981
	(In Thousands)	
At LIFO cost - whiskey, other spirits and wine:		
In bond	$176,820	$182,895
Tax paid	10,062	11,612
At cost - whiskey, other spirits and wine in bond.	14,435	59,376
Principally LIFO:		
Merchandise at stores and warehouses	243,800	243,553
Raw materials and supplies	15,918	17,783
Principally first-in, first-out and average cost:		
Merchandise at plants and warehouses	39,306	28,650
Work in process	8,433	9,326
Raw materials and supplies	15,249	23,983
Total	$524,023	$577,178

The excess of current cost over stated LIFO values amounted to approximately $201,000,000 and $211,000,000 at January 31, 1982 and 1981, respectively.

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5. INTANGIBLES

The aggregate cost of investments exceeded equity in underlying net assets acquired at dates of acquisition as follows:

	January 31, 1982	January 31, 1981
	(In Thousands)	
Schenley, etc	$174,614	$174,614
Lerner	65,526	65,526
McCrory	19,375	19,478
McGregor-Doniger	17,862	17,862
Other	4,967	1,000
Total*	282,344	278,480
Less accumulated amortization	35,655	31,448
Net	$246,689	$247,032

* Includes $169,614,000 and $165,747,000 at January 31, 1982 and 1981, respectively, which is being amortized over forty years (see Note 1).

Rapid's equity in the net income of Schenley was $9,649,000 (after nonrecurring loss of $16,085,000), $18,060,000 and $13,044,000, respectively, for the years ended January 31, 1982, 1981 and 1980. The net assets of Schenley at January 31, 1982 and 1981 were $354,575,000 and $350,127,000, respectively. Rapid carries its investments in subsidiaries, including Schenley, at equity, plus, when applicable, the excess of the aggregate cost over the equity in underlying net assets acquired at dates of acquisition, including the portion allocated to franchises.

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6. INDEBTEDNESS AND WARRANTS

Short-Term

Short-term borrowings for the three years ended January 31, 1982 were as follows:

	Year End		During the Year		
			Maximum	Average (*)	
	Amount Outstanding	Interest Rate	Amount Outstanding	Amount Outstanding	Interest Rate
	(In Thousands, Except Percentages)				
January 31, 1982:					
Credit lines and commercial paper..	$5,850	17.6%	$ 92,600	$ 49,800	19.3%
Trade acceptances ..	-		30,500	11,800	18.1
Total	$5,850		$123,100	$ 61,600	
January 31, 1981:					
Credit lines	$1,850	23.4	$ 50,000	$ 27,100	14.1
Trade acceptances ..	-		20,200	7,200	11.4
Total	$1,850		$ 70,200	$ 34,300	
January 31, 1980:					
Credit lines			$ 75,000	$ 37,000	15.2
Trade acceptances ..			10,900	3,100	13.3
Total			$ 85,900	$ 40,100	

(*) Average borrowings were calculated using the average month-end borrowings outstanding and the average interest rates were calculated by dividing the interest expense for such borrowings by the average month-end borrowings outstanding.

Lines of credit available for short-term bank borrowings and the issuance of commercial paper aggregated $100,000,000 at January 31, 1982 (see "McCrory Agreement" below).

McCrory, under its compensating balance arrangement, is generally expected to maintain cash balances of 5% of the unused portion of the line of credit and 5% of the loans outstanding. Such requirements were satisfied by maintenance of the required balances and the payment of fees.

The average cash book balances with various banks having a credit relationship with Rapid and its consolidated subsidiaries were approximately $19,000,000 and $23,000,000, respectively, during the years ended January 31, 1982 and 1981. The aforementioned balances were subject to withdrawal at any time.

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Long-Term

Details of consolidated long-term debt, including current maturities, at January 31, 1982 and 1981 were as follows:

Description	Amount Outstanding		Effective Interest Rate (%)	
	January 31,			
	1982	1981	1982	1981
	(In Thousands)			
Notes payable to banks:				
McCrory	$ 65,000	$ 45,000	16.5	20.5
McGregor	4,250	5,250	5.0	5.0
Rapid	3,000	5,320	18.3	23.5-24.2
Notes due to insurance companies:				
Schenley 10% notes due to 1991 ...	101,200	105,800	10.0	10.0
Subordinated indebtedness:				
5% Jr. SF debentures due 1981* ...	-	6,597	-	5.0
5-1/4% notes due 1981*	-	1,038	-	5.3
6-1/2% SF debentures due 1982* ...	3,905	3,905	8.7	8.7
10% notes due to 1984	2,648	3,785	15.0	15.0
7-1/2% SF debentures due to 1985..	40,840	41,374	9.4	9.4
10-1/2% SF debentures due to 1985*	6,422	6,498	11.3	11.3
6% SF debentures due 1988	102,114	102,114	8.0	8.0
6-1/2% convertible debentures due 1992*	3,379	3,379	6.9	6.9
7% debentures due 1994 (1969 issue)	51,766	51,766	9.3	9.3
7% debentures due 1994 (1972 issue)	66,277	66,277	9.9	9.9
7-1/2% SF debentures due to 1994*	55,481	55,481	9.5	9.5
6-1/2% convertible debentures due 1994*	1,007	1,112	6.5	6.5
7-3/4% SF debentures due to 1995*	62,444	62,444	12.1	12.1
7-5/8% SF debentures due to 1997*	55,650	55,600	9.8	9.8
12% SF debentures due to 1999	17,926	17,926	12.9	12.9
10-3/4% SF debentures due to 2003	153,141	153,141	13.7	13.7
10-3/4% SF debentures due to 2004	5,870	5,870	13.7	13.7
11% SF debentures due to 2005	15,510	15,510	14.0	14.0
10% SF debentures due to 2006	291,428	288,588	20.7	20.7
Notes and mortgages payable:				
Rapid	17,303	5,712	2-11.0	2-18.0
View Top Corporation	14,665	7,800	16.8-17.3	21.5
McCrory	12,905	9,914	2-16.3	2-20.5
Schenley	5,680	-	14-20.0	-
Shenandoah Corporation	3,007	4,069	7-8.0	7-19.0
Other subsidiaries	192	494	19.5	6-11.2
Total principal amount	1,163,010	1,131,764		
Less: Current maturities	(31,335)	(20,196)		
Unamortized discount	(250,671)	(256,398)		
Total	$ 881,004	$ 855,170		

* Subordinated indebtedness of McCrory or one of its subsidiaries.

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The 6-1/2% convertible debentures due 1992 of McCrory are convertible at the rate of $70 principal amount into $45 principal amount of 10% Debentures plus $3.25 in cash. The 6-1/2% convertible debentures due 1994 of J. J. Newberry are convertible at a rate of $150 principal amount for each share of J. J. Newberry Common Stock.

Aggregate principal amount of long-term debt at January 31, 1982 matures as follows:

Year Ending January 31,	(In Thousands)	Five Years Ending January 31,	(In Thousands)
1983	$ 31,335	1987	$ 207,030
1984	40,651	1992	282,983
1985	78,578	1997	292,718
1986	40,492	2002	139,615
1987	15,974	2007	240,664
TOTAL ...	$207,030	TOTAL ...	$1,163,010

At January 31, 1982, Rapid had an outstanding bank loan of $3,000,000. The loan bears interest at the prime rate plus 2-1/2% and is payable as follows: 1983 ($500,000), 1984 ($1,000,000) and 1985 ($1,500,000). The capital stock of Melville Knitwear Co., Inc. is pledged to collateralize this obligation and Melville is required to maintain minimum levels of working capital and equity.

At January 31, 1982, notes and mortgages payable aggregating approximately $48,000,000 were secured by land, buildings and equipment having an approximate carrying value of $53,000,000.

McCrory Agreement

At January 31, 1980, the McCrory credit agreement provided for a revolving credit up to $75,000,000 until December 31, 1981 and a reducing revolving credit, $60,000,000 at January 31, 1981, payable in annual instalments of $15,000,000, $20,000,000 and $25,000,000, respectively.

On June 19, 1981, McCrory entered into a credit agreement (the "McCrory Credit Agreement") with ten banks (the "Banks") providing for a revolving credit of up to $100,000,000 until July 31, 1984, 50% of which may be utilized as a back-up line for the issuance of unrated commercial paper, and at January 31, 1982 a reducing revolving credit of $65,000,000 payable in two annual instalments of $10,000,000 on December 31, 1982 and 1983, with the balance of $45,000,000 payable on July 31, 1984.

Interest is payable on the revolving credit line at the rate of the greater of the prime rate or 1/2 of 1% above the commercial paper rate (as defined), and on the reducing revolving credit at the rate of the greater of

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1/2 of 1% over the prime rate or 1% above the commercial paper rate. The McCrory Credit Agreement requires McCrory to pay annual balance deficiency fees to the extent that 5% of the average unpaid principal amount and 5% of the commitments exceed McCrory's average collected demand deposit balances with the lending banks. The balance deficiency fee for the revolving credit line is calculated on the basis of the prime rate and for the reducing revolving credit is calculated on the basis of 1/2 of 1% over the prime rate.

The McCrory Credit Agreement requires McCrory to maintain certain levels of (i) consolidated tangible net worth plus subordinated indebtedness, (ii) consolidated net current assets, and (iii) ratios of consolidated current assets to current liabilities (as each term is defined). In addition, Lerner is required to maintain a minimum level of consolidated tangible net worth. The McCrory Credit Agreement and other agreements covering certain indebtedness contain other material restrictions on McCrory and its subsidiaries, including restrictions on indebtedness, liens, guarantees, lease commitments, capital expenditures, the disposition of property, investments and the right to engage in business combinations. Subject to certain limitations, McCrory may pay cash dividends on its common stock in an amount not exceeding 50% of its consolidated net income (as defined), and may also pay cash dividends on its preference stocks in accordance with the stated dividend rates. Rapid guarantees McCrory's obligations under the McCrory Credit Agreement, which guarantee is collateralized by Rapid's pledge of the outstanding capital stock of its principal operating subsidiaries, and McCrory pledged the capital stock of Lerner to secure its obligations.

Schenley Agreements

On December 18, 1978, Schenley entered into a loan agreement with a group of insurance companies ("Schenley Loan Agreement"), pursuant to which Schenley borrowed $115,000,000 evidenced by 10% promissory notes due in instalments to December 1, 1991.

The Schenley Loan Agreement provides for, among other things, required annual payments in December 1982 of $4,600,000, $9,200,000 in each December of the years 1983 to 1987 and $12,650,000 in each of the years 1988 to 1991. Prepayments are permitted without penalty each year up to the amount of the mandatory payment for that year provided that the aggregate principal amounts so prepaid may not exceed $28,750,000. Additional prepayments may be made, in certain circumstances, with a penalty of 7.5% at January 31, 1982, decreasing in equal amounts until the last year, during which there is no penalty.

The Schenley Loan Agreement also contains certain limitations relating to Schenley's financial position, its indebtedness, dividends and liens, and investments in companies which are not wholly-owned subsidiaries. Commitments to make lease payments are restricted and transactions with affiliates, including Rapid, are significantly restricted. Schenley may pay dividends on its common stock in an amount up to 50% of its net income (as defined).

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McGregor-Doniger Term Loan Agreement

The McGregor-Doniger term loan agreement ($4,250,000 and $5,250,000 outstanding at January 31, 1982 and 1981, respectively) provides for quarterly payments of $250,000, with interest at 5% per annum until May 15, 1982 and thereafter at the prime rate. Rapid guarantees the obligations of McGregor-Doniger under this agreement.

Accounts Receivable Financing Agreements

Rapid at January 31, 1982, also has accounts receivable financing agreements under which it may borrow up to a maximum of $33,000,000.

Warrants

At January 31, 1982, there were approximately 825,000 warrants outstanding. Each warrant is exercisable for $45 principal amount of 10% Debentures and $3.25 in cash at an exercise price of $35. The warrants are redeemable, at Rapid's option, at $20 per warrant and expire May 15, 1994. In addition the indentures relating to Rapid's 7-1/2% sinking fund subordinated debentures, due 1985 and 12% sinking fund subordinated debentures, due 1999, provide that these debentures may be applied at their principal amount to the warrant exercise price.

7. COMMON STOCK

At January 31, 1982 and 1981, Riklis Family Corporation and AFC owned all of the outstanding common stock of Rapid (see Note 2 and Item 5 - "Dividend and Stock Purchase Restrictions").

8. RESERVES FOR CLOSED FACILITIES

S. Klein Phase-Out Reserve - In 1975 management of McCrory decided to phase-out completely the operations of S. Klein Department Stores, Inc., a wholly-owned subsidiary of McCrory. Through January 31, 1982, McCrory provided an aggregate of $85,165,000 (before Federal income tax benefits of $39,840,000) as a reserve for estimated losses to be incurred in connection with the phase-out. The program of phasing out the S. Klein stores resulted in all 19 stores being closed by the end of August 1975. McCrory has assigned the leases or sublet 12 of the stores, which included the assignment of five stores to Korvettes, Inc. (Korvettes has assigned its leases for three of the locations, two of which McCrory has been released of its lease obligations), has purchased one store, which has been substantially leased to others, has sublet major portions of three other stores and is attempting to make further dispositions. In July 1981, Korvettes filed a petition under Chapter XI of the Bankruptcy Law. In September 1981, Rapid purchased the 14th

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Street S. Klein store location from unrelated third parties and subsequently terminated the McCrory lease of the S. Klein store at that location. McCrory has not been released by its landlords from any of its obligations under 12 of the foregoing leases. At January 31, 1982, S. Klein phase-out reserve balance was $9,061,000 of which $2,104,000 was current. While additional provisions may be required based upon future developments, it is the opinion of management that the ultimate resolution of the S. Klein phase-out will not have a material effect upon Rapid's consolidated financial position.

Britts Reserves - At January 31, 1980, management decided to close seven Britts stores. A provision of $2,521,000 was established for the estimated losses to be incurred in closing these stores (before related Federal income tax benefit of $1,160,000). In October 1981, management decided to phase-out the Britts department store division of J. J. Newberry Co., a subsidiary of McCrory Corporation. J. J. Newberry Co. provided $3,013,000 for the estimated losses to be incurred in phasing-out these stores, before related Federal income tax benefits of $1,386,000. At January 31, 1982 the balance in the reserve consisted of $866,000 (current) and $737,000 (noncurrent).

Other Store Closing Reserves - At January 31, 1982, McCrory had reserves for the termination of certain variety store operations aggregating $2,929,000 of which $624,000 was current.

9. INCOME TAXES

The examinations by the Internal Revenue Service of the Federal income tax returns of Rapid and its subsidiaries have been substantially completed for the periods ended January 31, 1976. While the liabilities for the above-mentioned periods and open years are subject to final determination, the amounts accrued in the consolidated balance sheets, in the opinion of management, are adequate to cover amounts which may ultimately be payable.

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The provisions for income taxes included in the statements of consolidated income consisted of the following:

	Year Ended January 31, 1982	1981	1980
	(In Thousands)		
Continuing operations:			
Federal:			
Currently payable	$ 1,990	$ 5,457	$12,291
Deferred	12,951	7,283	6,865
Foreign:			
Currently payable	649	3,217	2,127
Deferred	(58)	(180)	28
State	10,819	7,099	7,419
	26,351	22,876	28,730
Discontinued operations - Federal:			
Currently payable	(2,576)	(1,023)	(1,319)
Deferred	2,576	1,023	1,319
Total	$26,351	$22,876	$28,730

Available investment tax credits of approximately $2,900,000, $3,500,000 and $4,900,000, respectively, for the years ended January 31, 1982, 1981 and 1980 were applied as reductions of Federal income tax provisions.

Deferred Federal and foreign income taxes relating to continuing operations result from the tax effects of items reported in different periods for tax and financial reporting purposes. The sources of these differences attributable to continuing operations and the tax effect of each were as follows:

	Year Ended January 31, 1982	1981	1980
	(In Thousands)		
Excess of tax over book depreciation	$ 1,573	$ 2,672	$ 2,877
Deferred gross profit on instalment sales	268	1,314	1,138
Net reduction in reserves for store closings	1,163	1,231	918
Amortization of debt discount	2,041	2,948	1,620
Disposition of Canadian alcoholic beverage operations	5,848	-	-
Other	2,000	(1,062)	340
Total	$12,893	$ 7,103	$ 6,893

Deferred income taxes relating to discontinued operations result from charges to the reserve for phasing out the S. Klein operations.

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The provision for income taxes for the years ended January 31, 1982, 1981 and 1980 amounted to $26,351,000, $22,876,000 and $28,730,000, respectively, representing effective income tax rates of 79.1%, 45.4% and 45.4%, respectively. These amounts are different than the amounts of $15,321,000, $23,203,000 and $29,133,000, respectively, computed by applying the statutory Federal income tax rate to income attributable to continuing operations before provision for income taxes. The reasons for the variances from the statutory rate were as follows:

	Year Ended January 31, 1982	1981	1980
	(Percent of Pre-tax Income)		
Computed statutory rate applicable to the period	46.0%	46.0%	46.0%
Increase (decrease) in income tax rate resulting from:			
Disposition of Canadian alcoholic beverage operations	38.0	-	-
State tax provision (net of Federal income tax benefit)	15.6	7.6	6.3
Investment tax credit	(8.6)	(6.9)	(7.7)
Amortization of excess of cost of investments over related equities and other intangibles	6.5	4.3	3.7
Foreign income	(4.8)	(1.5)	(2.0)
Capital gains	(3.8)	(.1)	-
Amortization of excess of equity over cost of related investment	(3.4)	(1.6)	(1.8)
Other	(6.4)	(2.4)	.9
Effective income tax rate	79.1%	45.4%	45.4%

10. PENSION PLANS

Rapid and its subsidiaries have various contributory and non-contributory pension plans covering eligible employees. The provisions for pension cost relating to the plans were $11,664,000, $10,596,000 and $10,063,000, for the years ended January 31, 1982, 1981 and 1980, respectively. It is the general policy to fund accrued pension cost as required.

The accumulated combined plan benefits and combined plan net assets for the various pension plans at January 1, 1982 and 1981 were as follows:

	1982	1981
	(In Millions)	
Actuarial present value of accumulated plan benefits:		
Vested	$141.7	$131.9
Nonvested	9.5	10.2
	$151.2	$142.1
Net assets available for benefits	$133.8	$131.6

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The assumed rate of return used in determining the actuarial present value of accumulated plan benefits was principally 9% at January 1, 1982 and 1981.

Employment agreements with certain officers and employees of Rapid and its subsidiaries provide, among other things, for retirement and/or deferred compensation allowances payable over a period of years after employment ceases, contingent upon certain conditions set forth in the agreements. During the years ended January 31, 1982, 1981 and 1980, $4,135,000, $2,820,000 and $1,669,000, respectively, were provided for such allowances.

11. INCOME PER SHARE OF COMMON STOCK

Primary income per share for the years ended January 31, 1982, 1981 and 1980, respectively, are after deducting Rapid's preferred dividend requirements (including preferred dividend requirements of its consolidated subsidiaries of $820,000, $861,000 and $915,000) and are based upon the weighted average number of common shares outstanding during each year and for January 31, 1981 and 1980 common stock equivalents arising from the assumed exercise of stock options and warrants and utilization of a portion of the proceeds to acquire 20% of the outstanding shares of common stock and the balance of the proceeds to reduce outstanding debt (resulting in assumed reduction in interest expense net of income tax).

Fully diluted income per share is based on the weighted average number of common shares outstanding increased by the number of common shares which would be issued assuming all dilutive convertible securities had been converted into common stock with appropriate adjustments having been made for related dividends and interest expense and dilution from assumed exercise of stock options and warrants.

Since earnings per share presented for the year ended January 31, 1981 by quarters (see Note 18) assume the exercise of stock options and warrants when the result for that quarter is dilutive, the total of the quarterly per share amounts do not agree to the full year totals.

12. LEASE COMMITMENTS

Rapid and its subsidiaries operate principally in leased premises. The basic terms of the initial leases generally range from 10 to 40 years and usually provide for one or more three to five-year renewal options, plus in many instances, the payment of additional rental based upon percentages of sales, real estate taxes, insurance and maintenance costs.

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Property and equipment under capital leases was as follows:

	January 31, 1982	January 31, 1981
	(In Millions)	
Buildings and store properties	$ 140.1	$ 150.5
Machinery and equipment	25.7	26.9
Less accumulated amortization	(119.0)	(122.5)
Net	$ 46.8	$ 54.9

Amortization of property under capital leases is computed using the straight-line method and has been included in depreciation and amortization expense.

The minimum rental commitments on leases of continuing operations (exclusive of common area charges) in effect at January 31, 1982 are as follows:

Years Ending January 31,	Capital Leases	Operating Leases
	(In Millions)	
1983	$ 12.8	$ 65.8
1984	12.0	61.6
1985	10.8	57.8
1986	9.2	54.6
1987	8.3	51.2
Thereafter	67.3	323.3
Total minimum payments required *	120.4	$614.3
Less:		
Amount representing interest	44.1	
Amount representing estimated executory costs included in minimum lease payments	3.6	
	47.7	
Present value of net minimum lease payments	72.7	
Less current portion	7.4	
Long-term obligation	$ 65.3	

* Minimum payments have not been reduced by minimum sublease rentals of $6.5 million under capital leases and $59.2 million under operating leases due in the future under noncancellable subleases. Contingent rentals which may be paid under certain leases have not been included.

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Rental expense relating to all operating leases of continuing operations was as follows:

	Year Ended January 31, 1982	1981	1980
	(In Millions)		
Minimum rentals	$72.0	$65.1	$58.0
Contingent rentals and expenses ..	24.1	23.2	23.2
Less - sublease rentals	(10.2)	(9.1)	(7.2)
Net	$85.9	$79.2	$74.0

Contingent rentals applicable to capital leases amounted to $3.1 million, $3.0 million and $3.0 million, respectively, in the years ended January 31, 1982, 1981 and 1980.

The minimum rental and real estate tax commitments of S. Klein at January 31, 1982, net of estimated sublease income are as follows:

Years Ending January 31,	(In Millions)
1983	$ 1.5
1984	1.1
1985	1.1
1986	.8
1987	.7
Thereafter	9.0
	14.2
Less - amount representing interest	8.5
Present value of commitments	$ 5.7

13. LITIGATION, COMMITMENTS AND CONTINGENCIES

Rapid and certain of its subsidiaries are defendants in various actions in which plaintiffs allege violations of securities laws, anti-trust laws, corporation laws, or product liability laws. Substantial damages or significant declaratory or injunctive relief are requested in these actions. In addition, actions are pending and there are asserted and unasserted claims against Rapid and certain of its subsidiaries by landlords, vendors, customers, former employees and others in which substantial damages are and may be requested. Rapid and its subsidiaries are unable to predict the possible range of damages in those actions where an amount of monetary damages is not specified. While Rapid and its subsidiaries intend to defend vigorously such actions and claims, management, after discussions with counsel is unable to predict with certainty the ultimate outcome of such actions and claims or whether any of them will result in any significant liability to Rapid on a consolidated basis. See Item 3 - "Legal Proceedings" which is an integral part of these Financial Statements.

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At January 31, 1982, Rapid was guarantor of the following: (a) $27,500,000 of lease payments supporting industrial revenue bonds and approximately $26,500,000 of other lease payments, all of which are obligations of former subsidiaries, as to which the purchasers of such subsidiaries have agreed to indemnify Rapid against any loss under the guarantees; and (b) other obligations of approximately $5,100,000, certain of which are lease payments of subsidiaries.

Rapid and certain of its subsidiaries make payment to foreign suppliers in the ordinary course of business by means of letters of credit. At January 31, 1982, the amount of letters of credit outstanding aggregated approximately $23,200,000.

14. OTHER REVENUES

Other revenues - net consisted of the following:

	Year Ended January 31,		
	1982	1981	1980
		(In Thousands)	
Interest income	$11,424	$ 4,935	$ 6,051
Gain on sale of airplane	5,219	-	-
Gain on sale of other fixed assets	3,939	601	(543)
Royalties - net	3,894	1,640	1,870
Gain (loss) on sale of distributors	-	4,163	(10)
Income (loss) of non-consolidated subsidiaries:			
ILC Industries, Inc.	1,406	1,477	1,571
Otasco Credit Corporation	992	737	536
Other	(85)	(858)	(1,261)
Gain on cash purchases of subordinated debentures for sinking funds	89	464	159
Termination of capital leases	39	(34)	708
Sundry - net	2,841	1,431	105
Total	$29,758	$14,556	$ 9,186

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15. SUPPLEMENTARY INCOME STATEMENT INFORMATION

	Year Ended January 31,					
	1982	1981	1980	1982	1981	1980
	Consolidated			Company		
	(In Thousands)					
Maintenance and repairs.	$24,005	$ 22,305	$ 21,471	$ 171	$ 25	$ 153
Depreciation and amortization of property, plant and equipment ..	$ 33,901	$ 32,377	$ 29,857	$ 544	$ 498	$ 643
Depreciation and amortization of intangible assets	$ 4,822	$ 5,614	$ 4,748	$3,138	$3,121	$3,093
Taxes, other than income taxes:						
Property	$ 14,830	$ 12,892	$ 13,590	$ 5	$ 5	$ 26
Payroll	36,268	32,918	32,389	152	95	111
Federal excise, rectification taxes and duties on imported products	189,095	227,808	246,317	-	-	-
State beverage taxes..	1,326	9,275	19,728	-	-	-
Other	4,531	4,206	4,175	415	439	451
Total	$246,050	$287,099	$316,199	$ 572	$ 539	$ 588
Rents before reduction for subrentals received from tenants ..	$99,205	$ 91,258	$ 84,233	$8,066	$7,077	$6,504
Advertising costs	$70,932	$ 66,177	$ 60,626	-	-	$ 40

All amounts above pertain to continuing operations.

16. ACCRUED EXPENSES AND SUNDRY

Accrued expenses and sundry consisted of the following:

	January 31,	
	1982	1981
	(In Thousands)	
Taxes, other than Federal and foreign income ...	$ 48,109	$ 54,224
Salaries, wages, commissions, etc.	31,639	32,800
Interest	19,761	31,518
Contributions to employee benefit plans	15,023	14,077
Rents	10,977	10,466
Reserves for store closings	3,594	5,123
Other	31,094	34,247
Total	$160,197	$182,455

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17. SALE OF CANADIAN ALCOHOLIC BEVERAGE OPERATIONS

Effective October 1, 1981, Schenley sold its Canadian operations to an unrelated third party. The sale price was equal to the book value of the Canadian operations at that date, less an amount representing certain inventory which is to be delivered to Schenley over the next several years. Schenley recognized a nonrecurring loss on this transaction of $6,337,000, principally attributable to the difference between Schenley's carrying value and the Canadian book value of such Canadian operations, as translated into U.S. currency. In addition, Schenley provided Federal and state income tax with respect to this disposition in the amount of $9,748,000 principally attributable to the U.S. tax on the previously undistributed earnings of the Canadian operations which were considered to be permanently invested.

18. INTERIM FINANCIAL INFORMATION (Unaudited)

	Quarter Ended			
Year Ended January 31, 1982	April 30	July 31	Oct. 31	Jan. 31
	(In Millions, Except Per Share Amounts)			
Net sales	$604.5	$615.0	$702.7	$723.7
Gross profit	179.1	177.3	215.9	201.3
Income (loss) before income taxes	3.9	(7.5)	18.2	18.7
Net income (loss)	.9	(6.0)	(2.0)	14.1
Per share of common stock (Note 11):				
Primary net income (loss)	$ .18	$ (2.68)	$ (1.02)	$ 5.55
Fully diluted net income (loss)	.18	(2.68)	(1.02)	5.55
Dividends declared	.10	.10	.10	.70
Year Ended January 31, 1981				
Net sales	$570.3	$591.2	$684.5	$742.7
Gross profit	158.3	166.9	198.3	201.7
Income (loss) before income taxes	(4.3)	2.0	19.5	33.2
Net income (loss)	(3.2)	.1	10.2	20.5
Per share of common stock (Note 11):				
Primary net income	$ (1.09)	$ (.43)	$ 1.34	$ 2.64
Fully diluted net income	*	*	1.19	2.23
Dividends declared	.20	.20	-	.20

* Anti-dilutive.

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19. PARENT COMPANY FINANCIAL STATEMENTS

The following are condensed financial statements of Rapid-American Corporation (Parent Company):

CONDENSED BALANCE SHEETS

	January 31, 1982	January 31, 1981
	(In Thousands)	
ASSETS		
Current assets	$ 19,620	$ 26,661
Investments and advances	461,291	471,994
Property and equipment - net	23,305	8,674
Intangibles - net	238,710	237,984
Other assets	10,190	4,417
Total	$753,116	$749,730
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities	$ 91,585	$ 99,497
Long-term debt, less current maturities and unamortized discount	541,676	530,487
Other non-current items	49,596	44,803
Preferred and common stockholders' equity	70,259	74,943
Total	$753,116	$749,730

CONDENSED STATEMENTS OF INCOME

	Year Ended January 31, 1982	1981	1980
	(In Thousands)		
Net sales and other income	$ 6,499	$ 5,717	$ 5,560
Costs and expenses and other deductions	(23,950)	(16,813)	(23,454)
Interest and debt expense	(85,565)	(51,226)	(51,490)
Income tax benefits	45,383	28,584	31,353
Loss from operations before equity in income of subsidiaries	(57,633)	(33,738)	(38,031)
Equity in income of consolidated subsidiaries	64,588	61,304	72,634
Net income	$ 6,955	$ 27,566	$ 34,603

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CONDENSED STATEMENTS OF CHANGES IN FINANCIAL POSITION

	Year Ended January 31, 1982	1981	1980
	(In Thousands)		
Funds Provided:			
Operations:			
Net income	$ 6,955	$ 27,566	$ 34,603
Less - equity in income of consolidated and non-consolidated subsidiaries	65,983	62,781	74,205
Loss before equity in income of consolidated subsidiaries	(59,028)	(35,215)	(39,602)
Cash dividends from subsidiaries	30,473	35,523	46,922
Charges not requiring current outlays - depreciation and amortization, including debt discount, excess cost, franchises and deferred income taxes	13,529	7,687	12,175
Funds (used in) provided by operations	(15,026)	7,995	19,495
Increases in long-term debt	13,420	147,676	-
Decrease in investments and advances - net	48,742	11,424	56,280
Issuance of $3.00 redeemable preference stock	-	-	53,436
Disposal of property, plant and equipment	132	36	459
	47,268	167,131	129,670
Funds Applied:			
Decreases in long-term debt	7,654	4,249	65,524
Investment in American Recreation Group	6,496	-	-
Acquisition of common, preference and preferred stocks and warrants	3,624	163,166	53,951
Cash dividends	3,615	11,358	6,524
Acquisition of Kenton - net	-	36,414	-
Additional consideration for acquisition of subsidiaries	-	3,035	-
Investment in McGregor-Doniger Inc.	-	-	4,189
Additions to property, plant and equipment	15,442	107	128
Loan to director - net	3,150	-	-
Other - net	6,416	1,625	(1,967)
	46,397	219,954	128,349
Increase (Decrease) in Working Capital	$ 871	$(52,823)	$ 1,321
Increase (Decrease) in Working Capital by Major Components:			
Current assets	$ (7,041)	$ (2,664)	$ (7,778)
Current liabilities	7,912	(50,159)	9,099
Increase (Decrease) in Working Capital	$ 871	$(52,823)	$ 1,321

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20. SEGMENT INFORMATION

See "Business - Segment Information" in Item 1 for net sales, operating profit (loss) and asset information relating to Rapid's industry segments, which are an integral part of these financial statements. Additional information concerning industry segments follows:

	Year Ended January 31,					
	1982		1981		1980	
	Capital Expenditures	Depreciation and Amortization	Capital Expenditures	Depreciation and Amortization	Capital Expenditures	Depreciation and Amortization
	(In Millions)					
Retail Merchandising:						
Lerner Stores	$15.6	$11.0	$22.4	$ 9.9	$24.5	$ 8.2
McCrory Stores	15.6	10.5	11.1	10.0	13.9	9.0
OTASCO Automotive and Home Accessories Stores	7.5	2.8	3.4	2.6	4.3	2.4
Britts Department Stores and others ..	.1	.2	2.1	.5	.6	1.1
Alcoholic Beverages-Schenley	16.5	4.0	4.4	4.8	7.3	5.2
Industrial Group and Others	2.5	3.3	2.2	2.2	1.4	2.3
Corporate and other	25.1	2.1	11.4	2.4	8.3	1.7
Total	$82.9	$33.9	$57.0	$32.4	$60.3	$29.9

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RAPID-AMERICAN CORPORATION AND SUBSIDIARIES

AMOUNTS RECEIVABLE FROM RELATED PARTIES AND UNDERWRITERS, PROMOTERS AND EMPLOYEES OTHER THAN RELATED PARTIES - CONSOLIDATED
For the Three Years Ended January 31, 1982
(In Thousands)

Column A	Column B	Column C	Column D	Column E	
Name of debtor *	Balance at beginning of year	Additions	Amounts Collected	Balance at end of year: Current	Balance at end of year: Not current
1982:					
Meshulam Riklis	$ 30	$ 3,330	$10	$ 10	$ 3,340
Carl H. Lindner		2,220			2,220
Leonard C. Lane	15	6,250	5	5	6,255
Isidore A. Becker	75	2,000	25	2,025	25
Arie Genger		1,200			1,200
Bernard J. Blaney		600			600
Specialty Stores Group		500		25	475
Franconia Associates..	341		29	30	282
Harold S. Divine	286			286	
Daniel J. Manella	286	200		486	
	1,033	16,300	69	2,867	14,397
Unamortized Discount..	(13)	(6,929)	—	(144)	(6,798)
Total	$1,020	$ 9,371	$69	$2,723	$ 7,599
1981:					
Franconia Associates..	$ 369		$28	$ 29	$ 312
Harold S. Divine		$ 286			286
Daniel J. Manella		286			286
Meshulam Riklis	40		10	10	20
Leonard C. Lane	20		5	5	10
Isidore A. Becker	100		25	25	50
	529	572	68	69	964
Unamortized Discount..	(23)	10	—	—	(13)
Total	$ 506	$ 582	$68	$ 69	$ 951
1980:					
Meshulam Riklis	$ 50		$10	$ 10	$ 30
Leonard C. Lane	25		5	5	15
Isidore A. Becker	125		25	25	75
Franconia Associates..	419		50	28	341
	619		90	68	461
Unamortized Discount..	(37)	$ 14	—	—	(23)
Total	$ 582	$ 14	$90	$ 68	$ 438

* See Item 10 - "Management Remuneration and Transactions - Certain Transactions and Other Matters".

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RAPID-AMERICAN CORPORATION AND SUBSIDIARIES

INVESTMENTS IN, EQUITY IN EARNINGS OF, AND DIVIDENDS RECEIVED FROM RELATED PARTIES - COMPANY

For the Three Years Ended January 31, 1982
(Dollar Amounts in Thousands)

Column A	Column B		Column C		Column D		Column E	
	Balance at Beginning of Year		Additions		Deductions		Balance at End of Year	
Name of Issuer and Description of Investment	Number of Shares or Units, Principal Amount of Bonds and Notes	Amount in Dollars	Equity Taken Up in Earnings (Losses) of Related Parties for the year	Other	Distribution of Earnings By Persons in Which Earnings (Losses) Were Taken Up	Other	Number of Shares or Units, Principal Amount of Bonds and Notes	Amount in Dollars
1982:								
SUBSIDIARIES CONSOLIDATED - Common Stock (unless indicated otherwise):								
McCrory Corporation	5,046,825	$117,239	$45,407		$22,773	$1,734 (1)	5,046,825	$138,139
McCrory Corporation (Preference)		3,250		$ 2				3,252
Schenley Industries, Inc.	200	350,127	9,649		5,200	1	200	354,575
McGregor-Doniger Inc.	1,000	1,874	5,692				1,000	7,566
McGregor-Doniger Inc. (Preferred)		49,715						49,715
Rapid-American Menswear, Inc.	10	992	265				10	1,257
RAAM Information Services Corporation	100,000	17	248				100,000	265
View Top Corporation	100	705	2,906				100	3,611
Triple Eight Corporation	2	1	(1,333)				2	(1,332)
Theatre Venture, Inc.	1	12	20				1	32
Anvil Brand Incorporated	100	18,373	(29)				100	18,344
Rapid Distribution Service Inc.	1,000	139	(13)				1,000	126
Shenandoah Corporation	100	7,010	547			8	100	7,549
Melville Knitwear Co., Inc.	100	7,218	723		1,500	1	100	6,440
Donagain Corp.	21	3,655	357		1,000	2,821 (1)	21	191
Plastic Toy and Novelty Corp.	500	(23)	316			13	500	280
American Recreation Group			(167)	6,496 (2)		3,967 (3)	200	2,362
		560,304	64,588	6,498	30,473	8,545		592,372
SUBSIDIARY NOT CONSOLIDATED -								
ILC Industries, Inc.	555,054	3,968	1,395			5,363 (4)		-
ILC Industries, Inc. (Preferred)				6,477 (4)				6,477
Total		$564,272	$65,983	$12,975	$30,473	$13,908		$598,849 (14)
1981:								
SUBSIDIARIES CONSOLIDATED - Common Stock (unless indicated otherwise):								
McCrory Corporation	5,046,825	$100,225	$45,278		$27,673	$ 591 (1)	5,046,825	$117,239
McCrory Corporation (Preference)		3,235		$ 15 (5)				3,250
Schenley Industries, Inc.	200	339,917	18,060		7,850		200	350,127
McGregor-Doniger Inc.	1,000	3,753	(1,879)				1,000	1,874
McGregor-Doniger Inc. (Preferred)		49,715						49,715
Rapid-American Menswear, Inc.	10	1,219	(227)				10	992
RAAM Information Services Corporation	100,000	(627)	164	480 (6)			100,000	17
View Top Corporation	100	701	4				100	705
Triple Eight Corporation	2	(1,978)		1,979 (6)			2	1
Theatre Venture, Inc.	1	(165)	(8)	185 (6)			1	12
Anvil Brand Incorporated	100	18,381	(8)				100	18,373
Rapid Distribution Service Inc.			(80)	219 (7)			1,000	139
Shenandoah Corporation				7,010 (8)			100	7,010
Melville Knitwear Co., Inc.				7,218 (8)			100	7,218
Donagain Corp.				3,655 (8)			21	3,655
Plastic Toy and Novelty Corp.				(23) (8)			500	(23)
		514,376	61,304	20,738	35,523	591		560,304
SUBSIDIARY NOT CONSOLIDATED -								
ILC Industries, Inc.	555,054	2,491	1,477				555,054	3,968
Total		$516,867	$62,781	$20,738	$35,523	$ 591		$564,272 (14)

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RAPID-AMERICAN CORPORATION AND SUBSIDIARIES

INVESTMENTS IN, EQUITY IN EARNINGS OF, AND DIVIDENDS RECEIVED FROM RELATED PARTIES - COMPANY

For the Three Years Ended January 31, 1982
(Dollar Amounts in Thousands)

Column A	Column B		Column C		Column D		Column E	
	Balance at Beginning of Year		Additions		Deductions		Balance at End of Year	
Name of Issuer and Description of Investment	Number of Shares or Units, Principal Amount of Bonds and Notes	Amount in Dollars	Equity Taken Up in Earnings (Losses) of Related Parties for the year	Other	Distribution of Earnings By Persons in Which Earnings (Losses) Were Taken Up	Other	Number of Shares or Units, Principal Amount of Bonds and Notes	Amount in Dollars
1980:								
SUBSIDIARIES CONSOLIDATED -								
Common Stock (unless indicated otherwise):								
McCrory Corporation	5,046,825	$ 87,692	$55,147		$40,172	$ 2,442 (1)	5,046,825	$100,225
McCrory Corporation (Preference)		3,235						3,235
Schenley Industries, Inc.	200	333,623	13,044		6,750		200	339,917
McGregor-Doniger Inc.			3,332	$ 84 (1) 4,189 (2)		3,852 (9)	1,000	3,753
McGregor-Doniger Inc. (Preferred)				49,715 (10)				49,715
Glen Alden Corporation	200	48,731	398			26,266 (11) 22,863 (12)		
Rapid-American Menswear, Inc.	10	29,084	143	2,999 (6)		31,007 (10)	10	1,219
RAAM Information Services Corporation	100,000	(637)	10				100,000	(627)
View Top Corporation	100	118	583				100	701
Triple Eight Corporation	2	(1,985)	7				2	(1,978)
Theatre Venture, Inc.	1	(142)	(23)				1	(165)
Anvil Brand Incorporated		—	(7)	41,804 (13)	—	18,708 (10) 4,708 (11)	100	18,381
		499,719	72,634	98,791	46,922	109,846		514,376
SUBSIDIARY NOT CONSOLIDATED -								
ILC Industries, Inc.	555,054	920	1,571	—	—	—	555,054	2,491
Total		$500,639	$74,205	$98,791	$46,922	$109,846		$516,867

Notes:

(1) Rapid's portion of other changes in common stockholders' equity.
(2) Cost of acquiring common stock.
(3) Excess of cost over acquired equity.
(4) See Note 3 to Financial Statements.
(5) Rapid purchased 125 shares of McCrory 5-1/2% Cumulative Preference B Stock and 26 shares of McCrory 4-1/2% Preference B Stock.
(6) Capital contribution of intercompany account.
(7) Contribution of the net assets of an operating division of the Parent Company.
(8) Subsidiaries of Kenton Corporation. (See Note 1 to Financial Statements).
(9) Excess of cost over acquired equity, including $754,000 of equity in losses prior to acquisition of majority interest.
(10) Contribution of the net assets of the operating divisions of Rapid-American Menswear Inc. and Anvil Brand, Incorporated.
(11) Dividend of wholly-owned subsidiary to Parent Company.
(12) Liquidation into parent.
(13) Transferred from Glen Alden.
(14) Reconciliation of investments in and advances to subsidiaries as per Parent Company condensed balance sheets:

	January 31, 1982	January 31, 1981
	(In Thousands)	
Amounts as per above	$ 598,849	$564,272
Amounts as per Schedule IV	(138,816)	(92,278)
Other	1,258	-
	$ 461,291	$471,994

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RAPID-AMERICAN CORPORATION AND SUBSIDIARIES

INDEBTEDNESS OF AND TO RELATED PARTIES - NOT CURRENT - COMPANY

For the Three Years Ended January 31, 1982
(In Thousands)

Column A	Column B	Column C	Column D	Column E	Column F	Column G	Column H	Column I
Name of Related Party	Balance at beginning of year	Indebtedness of Additions	Indebtedness of Deductions	Balance at end of year	Balance at beginning of year	Indebtedness to Additions	Indebtedness to Deductions	Balance at end of year
1982:								
SUBSIDIARIES CONSOLIDATED:								
McCrory Corporation					$30,295	$ 90,916 (7)	$25,892 (1) 22,600 (15)	$ 72,719
Schenley Industries, Inc...					22,289	19,724 (7) 2,453 (2)	17,700 (1) 5,200 (15) 2,101 (4)	19,465
McGregor-Doniger Inc.					16,837	4,792 (3)	4,190 (1) 850	16,589
Rapid-American Menswear, Inc.					461	26 (1) 1,035 (7)		1,522
RAAM Information Services Corporation					(194)	601 (5) 200	43 (1) 468 (4)	96
View Top Corporation					(906)	11,469 (7)	2,830 (1)	7,733
Triple Eight Corporation ..	$ 362	$ 5,991 (7)	$ 1,136 (1)	$ 5,217				
Theatre Venture Inc.	1,153	25 (1)		1,178				
Anvil Brand Incorporated ..					22,660	10 (1)	396 152 (7)	22,122
Rapid Distribution Service, Inc.	84	274 (7)	235 (1)	123				
Shenandoah Corporation					3,782	400 (7) 200	581 (1)	3,801
Melville Knitwear Co. Inc..					3,408	2,439 (7) 305	1,500 (15) 623 (1)	4,029
Donagain Corp.............	(3,059)	303 (1) 1,000 (15) 3,280 (13)		1,524				
Plastic Toy and Novelty Corp.	1,800	251 (1)	679 (7)	1,372				
American Recreation Group..						154		154
	340	11,124	2,050	9,414	98,632	134,724	85,126	148,230
SUBSIDIARY NOT CONSOLIDATED:								
ILC Industries, Inc.	6,014	436	6,450 (16)	-				
	$ 6,354	$11,560	$ 8,500	$ 9,414	$98,632	$134,724	$85,126	$148,230
10% subordinated notes, net of discount, issued to Kenton Management					$ 2,560		$ 2,560 (17)	
6% subordinated notes, net of discount, due Isidore A. Becker					634		634 (17)	
					$ 3,194		$ 3,194	

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SCHEDULE IV
(Continued)

RAPID-AMERICAN CORPORATION AND SUBSIDIARIES

INDEBTEDNESS OF AND TO RELATED PARTIES - NOT CURRENT - COMPANY

For the Three Years Ended January 31, 1982
(In Thousands)

Column A	Column B	Column C	Column D	Column E	Column F	Column G	Column H	Column I
Name of Related Party	Balance at beginning of year	Indebtedness of Additions	Indebtedness of Deductions	Balance at end of year	Balance at beginning of year	Indebtedness to Additions	Indebtedness to Deductions	Balance at end of year
1981:								
SUBSIDIARIES CONSOLIDATED:								
McCrory Corporation					$39,672	$ 44,311 (7)	$26,188 (1) 27,500 (15)	$ 30,295
Schenley Industries, Inc...					(2,101)	26,330 (2) 9,583 (7)	9,610 (1) 1,913 (4)	22,289
McGregor-Doniger Inc.					2,915	1,397 (1) 12,525 (3)		16,837
Rapid-American Menswear, Inc.					634	193 (1)	366	461
RAAM Information Services Corporation	$ 886	$ 124 (1) 310 (4)	$ 546 (5) 480 (6) 100	$ 194				
View Top Corporation	428	858 (7)	380 (1)	906				
Triple Eight Corporation ..	1,978	363 (7)	1,979 (6)	362				
Theatre Venture Inc.	801	537	185 (6)	1,153				
Anvil Brand Incorporated ..					22,496	437	240 (1) 33	22,660
Rapid Distribution Service, Inc.		500 (7)	324 (5) 92 (1)	84				
Shenandoan Corporation						3,782 (8)		3,782
Melville Knitwear Co. Inc..						3,408 (8)		3,408
Donagain Corp.						3,059 (8)		3,059
Plastic Toy and Novelty Corp.		1,800 (8)		1,800				
	4,093	4,492	4,086	4,499	63,616	105,025	65,850	102,791
SUBSIDIARY NOT CONSOLIDATED:								
ILC Industries, Inc.	5,739	368	93	6,014				
	$ 9,832	$ 4,860	$ 4,179	$10,513	$63,616	$105,025	$65,850	$102,791
10% subordinated notes, net of discount, issued to Kenton Management (9)						$ 2,560 (10)		$ 2,560
6% subordinated notes, net of discount, due Isidore A. Becker (9)						634 (11)		634
						$ 3,194		$ 3,194

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RAPID-AMERICAN CORPORATION AND SUBSIDIARIES

INDEBTEDNESS OF AND TO RELATED PARTIES - NOT CURRENT - COMPANY

For the Three Years Ended January 31, 1982
(In Thousands)

Column A	Column B	Column C	Column D	Column E	Column F	Column G	Column H	Column I
Name of Related Party	Balance at beginning of year	Indebtedness of Additions	Indebtedness of Deductions	Balance at end of year	Balance at beginning of year	Indebtedness to Additions	Indebtedness to Deductions	Balance at end of year
1980:								
SUBSIDIARIES CONSOLIDATED:								
McCrory Corporation					$ 2,037	$110,888 (7)	$ 31,365 (1) 41,888 (15)	$39,672
Schenley Industries, Inc...	$ 948	$ 6,100 (1) 1,939 (4)	$ 6,886 (7)	$ 2,101				
Glen Alden Corporation (1).					24,012	1,476 (7)	479 (1) 25,009 (12)	
McGregor-Doniger Inc.						5,516 (3)	2,601 (1)	2,915
Rapid-American Menswear, Inc.					(4,325)	2,999 (6) 3,799 (13)	125 (1) 1,324 (7) 390 (4)	634
RAAM Information Services Corporation	1,789	9 339 (4)	1,251 (5)	886				
View Top Corporation	2,236		1,196 (1) 612	428				
Triple Eight Corporation ..	1,986	6	14	1,978				
Theatre Venture, Inc.	495	336 (7)	30 (1)	801				
Anvil Brand Incorporated ..						15,538 (14) 6,084 (13) 874		22,496
	7,454	8,729	9,989	6,194	21,724	147,174	103,181	65,717
SUBSIDIARY NOT CONSOLIDATED:								
ILC Industries, Inc.	5,374	446	81	5,739				
	$12,828	$ 9,175	$10,070	$11,933	$21,724	$147,174	$103,181	$ 65,717

Notes:

(1) Federal income taxes due to or from Parent Company.
(2) Issuance of 9.73% Note and related interest in exchange for Parent Company 6% debentures held by Schenley Industries, Inc.
(3) Trade receivable factored with Parent Company, net of cash transfers.
(4) Rent of premises.
(5) Services performed for Parent Company.
(6) Capital contribution of related party indebtedness.
(7) Net advances.
(8) Subsidiaries at date of acquisition. See Note 1 to Financial Statements.
(9) Notes due to related parties included in long-term debt, less current maturities and unamortized discount.
(10) See Note 2 to Financial Statements.
(11) Assumed in merger with Kenton Corporation on January 1, 1981.
(12) Liquidated into Parent Company
(13) Transfer between Affiliates.
(14) Received uopn liquidation of Glen Alden Corporation.
(15) Dividends on common stock, including in 1980, dividend of common stock and warrants, to Parent.
(16) See Note 3 to Financial Statements.
(17) Transfer to current liabilities.

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RAPID-AMERICAN CORPORATION AND SUBSIDIARIES

VALUATION AND QUALIFYING ACCOUNTS - COMPANY AND CONSOLIDATED

For the Three Years Ended January 31, 1982
(In Thousands)

Column A	Column B	Column C		Column D	Column E
		Additions			
Descriptions	Balance at beginning of year	Charged to Costs and Expenses	Charged to Other Accounts	Deductions	Balance at end of year
1982:					
COMPANY:					
Allowances deducted from assets to which they apply:					
Doubtful accounts receivable - trade	$ 966	$ 635		$ 283 133	$ 1,185
Doubtful accounts receivable - other (1)	651			65	586
Total	1,617	635		481	1,771
Reserves for revaluation of investments in common stock of unconsolidated subsidiary (2)	416				416
Total	$ 2,033	$ 635		$ 481	$ 2,187
CONSOLIDATED:					
Allowances deducted from assets to which they apply:					
Doubtful accounts receivable:					
Trade	$ 3,578	$ 2,180		$ 2,323 133	$ 3,302
Transportation claims	149			99	50
Allowance for discounts and allowances	152	273			425
Total	3,879	2,453		2,555	3,777
Doubtful accounts receivable - other (1)	900	173		350 (133)	856
Total	4,779	2,626		2,772	4,633
Reserves for revaluation of investment in common stock of unconsolidated subsidiary and affiliated companies (2)	8,034	141		1,800	6,375
Reserves for store closings	23,274	(621) (3)	$ 2,380 (5)	11,440	13,593
Total	31,308	(480)	2,380	13,240	19,968
Total	$36,087	$ 2,146	$ 2,380	$16,012	$24,601

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RAPID-AMERICAN CORPORATION AND SUBSIDIARIES

VALUATION AND QUALIFYING ACCOUNTS - COMPANY AND CONSOLIDATED

For the Three Years Ended January 31, 1982
(In Thousands)

Column A	Column B	Column C		Column D	Column E
		Additions			
Descriptions	Balance at beginning of year	Charged to Costs and Expenses	Charged to Other Accounts	Deductions	Balance at end of year
1981:					
COMPANY:					
Allowances deducted from assets to which they apply:					
Doubtful accounts receivable - trade	$ 865	$ 504		$ 403	$ 966
Doubtful accounts receivable - other (1)	586		$ 68	3	651
Total	1,451	504	68	406	1,617
Reserves for revaluation of investments in common stock of unconsolidated subsidiary (2)	416				416
Total	$ 1,867	$ 504	$ 68	$ 406	$ 2,033
CONSOLIDATED:					
Allowances deducted from assets to which they apply:					
Doubtful accounts receivable:					
Trade	$ 4,758	$ 1,210		$ 2,390	$ 3,578
Transportation claims	149				149
Allowance for discounts and allowances	101		$ 51		152
Total	5,008	1,210	51	2,390	3,879
Doubtful accounts receivable - other (1)	758	231	68	157	900
Total	5,766	1,441	119	2,547	4,779
Reserves for revaluation of investment in common stock of unconsolidated subsidiary and affiliated companies (2)	7,191	843			8,034
Reserves for store closings	28,694	2,476 (3)		7,896	23,274
Total	35,885	3,319		7,896	31,308
Total	$41,651	$ 4,760	$ 119	$10,443	$36,087

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RAPID-AMERICAN CORPORATION AND SUBSIDIARIES

VALUATION AND QUALIFYING ACCOUNTS - COMPANY AND CONSOLIDATED

For the Three Years Ended January 31, 1982
(In Thousands)

Column A	Column B	Column C		Column D	Column E
		Additions			
Descriptions	Balance at beginning of year	Charged to Costs and Expenses	Charged to Other Accounts	Deductions	Balance at end of year
1980:					
COMPANY:					
Allowances deducted from assets to which they apply:					
Doubtful accounts receivable - trade	$ 82	$ 1,133	$ 1,595 (4)	$ 1,945	$ 865
Doubtful accounts receivable - other (1)	32	467	87 (4)		586
Total	114	1,600	1,682	1,945	1,451
Reserves for revaluation of investments in common stock of unconsolidated subsidiary (2)	416				416
Total	$ 530	$ 1,600	$ 1,682	$ 1,945	$ 1,867
CONSOLIDATED:					
Allowances deducted from assets to which they apply:					
Doubtful accounts receivable:					
Trade	$ 4,395	$ 1,477		$ 1,114	$ 4,758
Transportation claims	149				149
Allowance for discounts and allowances	421	1,627		1,947	101
Total	4,965	3,104		3,061	5,008
Doubtful accounts receivable - other (1)	180	597	$ 350	369	758
Total	5,145	3,701	350	3,430	5,766
Reserves for revaluation of investment in common stock of unconsolidated subsidiary and affiliated companies (2)	8,424	5		1,238	7,191
Reserves for store closings	32,363	2,306 (3)	2,171 (5)	8,146	28,694
Total	40,787	2,311	2,171	9,384	35,885
Total	$45,932	$ 6,012	$ 2,521	$12,814	$41,651

Notes:

(1) Reserve account has been netted against applicable accounts receivable.
(2) Deducted from investments to which they apply.
(3) Includes imputed interest of $1,975,000 in 1982, $2,026,000 in 1981 and $2,167,000 in 1980, $3,013,000 provision for Britts and $5,609,000 reversal of excess reserves in 1982.
(4) Transfer of a subsidiary to Parent Company
(5) Transfer of related capital lease obligation and excess credit.

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INDEX TO EXHIBITS

Exhibits		Page No.
3(a)	Rapid's Certificate of Incorporation, annexed as Schedule C to Exhibit A to the Prospectus forming part of the Joint Registration Statement of Rapid and Kenton on Form S-14, File No. 2-70073 (the "Joint Registration Statement"), which is incorporated herein by reference.	*
(b)	Rapid's By-Laws, filed as Exhibit 3(b) to the Joint Registration Statement, which is incorporated herein by reference.	*
4(a)	Indenture, dated as of January 31, 1981, between Rapid and Bradford Trust Company, filed as Exhibit 4 to the Joint Registration Statement, which is incorporated herein by reference.	*
(b)**		
10(a)(1)	Employment Agreement between Schenley and Isidore A. Becker, dated as of August 1, 1975, filed as Exhibit 10(a)(1) to the Joint Registration Statement, which is incorporated herein by reference.	*
(2)	Supplemental Agreement, dated as of October 19, 1978, to the Employment Agreement, dated as of August 1, 1975, between Schenley and Isidore A. Becker, filed as Exhibit 10(a)(2) to the Joint Registration Statement, which is incorporated herein by reference.	*
(b)	Employment Agreement between McCrory and Bernard J. Blaney, dated as of July 1, 1980, filed as Exhibit 10(b) to the Joint Registration Statement, which is incorporated herein by reference.	*
(c)(1)	Employment Agreement between McCrory and Harold S. Divine, dated as of February 1, 1980, filed as Exhibit 10(c)(1) to the Joint Registration Statement, which is incorporated herein by reference.	*
(2)	Letter Amendment, dated September 29, 1980, to the Employment Agreement, dated as of February 1, 1980, between McCrory and Harold S. Divine, filed as Exhibit 10(c)(2) to the Joint Registration Statement, which is incorporated herein by reference.	*
(d)	Employment Agreement between Schenley and Howard S. Feldman, dated as of March 1, 1973, as amended, filed as Exhibit 10(d) to Rapid's Form 10-K for the fiscal year ended January 31, 1981.	*

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Exhibits		Page No.
(e)(1)	Employment Agreement between McCrory and Arie Genger, dated as of February 1, 1980, filed as Exhibit 10(d)(1) to the Joint Registration Statement, which is incorporated herein by reference.	*
(2)	Letter Agreement, dated as of February 1, 1980, relating to the Employment Agreement of even date between McCrory and Arie Genger, filed as Exhibit 10(d)(2) to the Joint Registration Statement, which is incorporated herein by reference.	*
(f)(1)	Employment Agreement between Rapid and Leonard C. Lane, dated as of February 1, 1974, filed as Exhibit 10(e)(1) to the Joint Registration Statement, which is incorporated herein by reference.	*
(2)	Supplemental Agreement, dated as of October 19, 1978, to the Employment Agreement, dated as of February 1, 1974, between Rapid and Leonard C. Lane, filed as Exhibit 10(e)(2) to the Joint Registration Statement, which is incorporated herein by reference.	*
(g)	Employment Agreement between McCrory and Ben Litwak, dated as of February 1, 1981, filed as Exhibit 10 (g) to Rapid's Form 10-K for the fiscal year ended January 31, 1981.	*
(h)	Employment Agreement between Rapid and Meshulam Riklis, dated as of November 20, 1972, filed as Exhibit 10(g) to the Joint Registration Statement, which is incorporated herein by reference.	*
(i)	Schenley's Employees' Retirement and Benefit Plan, Restated effective January 31, 1976 and as Amended through May 24, 1979, filed as Exhibit 10(j) to the Joint Registration Statement, which is incorporated herein by reference.	*
(j)	McCrory's Plan of Retirement for Directors adopted January 10, 1978, filed as Exhibit 10(k) to the Joint Registration Statement, which is incorporated herein by reference.	*
(k)	Employment agreement, dated as of February 1, 1981, between Daniel J. Manella and McCrory.	E-4 ***
(l)	Employment agreement, dated as of July 1, 1981, between Bernard J. Blaney and McCrory.	E-5 ***

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* Incorporated by reference.

** For a description of Rapid's other long-term indebtedness, see Note 6 to Financial Statements. Rapid agrees to furnish to the Commission copies of such instruments upon its request.

*** Exhibit Omitted.

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RAPID-AMERICAN CORPORATION AND SUBSIDIARIES

COMPUTATION OF NET INCOME PER COMMON SHARE

The computation of primary income per share is summarized as follows:

	Year Ended January 31,				
	1982	1981	1980	1979	1978
	(In Thousands, Except Per Share Amounts)				
Computation of Primary Net Income Applicable to Common Stockholders					
Net income applicable to common stockholders ...	$ 4,956	$18,259	$30,987	$42,624	$45,765
Add - assumed adjustments to net income resulting from:					
Reduction of interest expense arising from proceeds of assumed exercise of warrants applied to the assumed repurchase of debt, net of applicable Federal income tax	-	-	4,855	4,067	-
Primary net income applicable to common stockholders	$ 4,956	$18,259	$35,842	$46,691	$45,765
Computation of Primary Shares					
Weighted average shares outstanding	2,436	5,150	6,614	7,756	7,854
Add shares assumed to be issued upon:					
Exercise of warrants, net of repurchase with proceeds from exercise thereof	-	-	1,262	989	-
Primary shares	2,436	5,150	7,876	8,745	7,854
Primary Income Per Share	$ 2.03	$ 3.55	$ 4.55	$ 5.34	$ 5.83

The computation of fully diluted income per share is summarized as follows:

	Year Ended January 31,				
	1982	1981	1980	1979	1978
	(In Thousands, Except Per Share Amounts)				
Computation of Fully Diluted Net Income					
Net income applicable to common stockholders ...		$18,259	$30,987	$42,624	$45,765
Add assumed adjustments to net income resulting from:					
Reduction of interest expense on convertible debt assumed converted and from proceeds of assumed exercise of warrants applied to the assumed repurchase of debt, net of applicable Federal income tax		123	7,731	6,670	120
Convertible preferred dividends		254	656	889	942
Total		377	8,387	7,559	1,062
Fully diluted net income	$ 4,956	$18,636	$39,374	$50,183	$46,827
Computation of Fully Diluted Shares					
Shares used for computation of primary income per share		5,150	7,876	8,745	7,854
Add shares assumed to be issued (exclusive of common stock equivalents included in shares used for computation of primary income per share) upon:					
Exercise of warrants, net of repurchase with proceeds from exercise thereof		-	990	990	-
Conversion of convertible preferred stocks		310	878	1,185	1,260
Conversion of convertible debentures and notes		48	48	48	48
Fully diluted shares	2,436	5,508	9,792	10,968	9,162
Fully Diluted Income Per Share	$ 2.03	$ 3.38	$ 4.02	$ 4.58	$ 5.11

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RAPID-AMERICAN CORPORATION AND SUBSIDIARIES

COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES AND PREFERRED DIVIDENDS COMBINED

	Year Ended January 31,				
	1982	1981	1980	1979	1978
	(In Thousands, Except Ratios)				
Earnings as defined:					
Income before income taxes and extraordinary credits (1)	$ 33,306	$ 50,442	$ 63,333	$ 78,427	$ 42,506
Add: Fixed charges as defined:					
Interest and debt expense (2)	157,142	114,490	120,127	109,515	102,608
One third of annual rents (3)	33,068	30,419	28,075	25,881	24,643
Total fixed charges	190,210	144,909	148,202	135,396	127,251
Preferred dividend requirements (4)	3,702	17,235	6,696	3,466	3,708
Total fixed charges and preferred dividend requirements, as defined	193,912	162,144	154,898	138,862	130,959
Total earnings, as defined	$223,516	$195,351	$211,535	$213,823	$169,757
Ratio of earnings to fixed charges and preferred dividends combined	1.15	1.20	1.37	1.54	1.30

	1982	1981	1980	1979	1978
(1) Income before income taxes and extraordinary credits:					
Income from continuing operations	$ 33,306	$ 50,422	$ 63,333	$ 78,427	$ 57,006
Loss from operations discontinued or sold - net	-	-	-	-	(7,500)
Income taxes on operations discontinued or sold	-	-	-	-	(7,000)
Total (to above)	$ 33,306	$ 50,442	$ 63,333	$ 78,427	$ 42,506
(2) Interest and debt expense:					
Per statement of consolidated operations	$161,258	$117,607	$122,588	$111,267	$103,929
Otasco Credit - net adjustment	(4,116)	(3,117)	(2,461)	(1,752)	(1,321)
Total (to above)	$157,142	$114,490	$120,127	$109,515	$102,608

(3) Representative of interest on operating leases.

(4) Preferred dividends on a pretax basis.

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TABLE OF RAPID-AMERICAN CORPORATION AND SUBSIDIARIES

The following table sets forth certain information, as of April 15, 1982, with respect to the subsidiaries of Rapid, other than certain subsidiaries which, if considered in the aggregate as a single subsidiary, would not constitute a significant subsidiary.

	Percentage of voting securities owned by its immediate parent	State or other jurisdiction in which incorporated
Parent (1)		
Subsidiaries of Rapid:		
McCrory Corporation	100%(2)	Delaware
Schenley Industries, Inc.	100%(3)	Delaware
McGregor-Doniger Inc.	100%(3)	New York
Melville Knitwear Co., Inc.	100%(4)	New York
Shenandoah Corporation	100%	Delaware
Plastic Toy and Novelty Corp.	100%	Delaware
American Recreation Group, Inc.	100%	Delaware
Anvil Brand, Inc.	100%	Delaware
Rapid-American Menswear, Inc.	100%	Delaware
Rapid Distribution Service, Inc.	100%	Delaware
RAAM Information Services Corporation	100%	Delaware
View Top Corporation	100%	Delaware
Leeds (Israel) Ltd.	100%	Israel
Theatre Venture, Inc.	100%	Delaware
Triple Eight Corporation	100%	Delaware
Subsidiaries of McCrory:		
Lerner Stores Corporation	100%(5)	Maryland
Otasco, Inc.	100%	Nevada
J. J. Newberry Co.	100%	Delaware
S. Klein Department Stores, Inc.	100%	New York
Subsidiaries of Lerner:		
Lerner owns 100% of the voting securities of its 11 subsidiaries, nine of which operate retail stores, and two service retail stores.		
Subsidiary of Otasco:		
Otasco Credit Corporation	100%	Nevada
Subsidiary of Newberry:		
J. J. Newberry Canadian Ltd. (6)	100%	Canada
Subsidiaries of Schenley Industries, Inc.:		
AGE Bodegas Unidas, S.A.	49.3%	Spain
Distributors of New England, Inc.	100%	Mass.
Dreyfus-Ashby & Co. Limited	100%	United Kingdom
Dubonnet Wine Corporation	100%	New York

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TABLE OF RAPID-AMERICAN CORPORATION AND SUBSIDIARIES

	Percentage of voting securities owned by its immediate parent	State or other jurisdiction in which incorporated
Subsidiaries of Schenley Industries, Inc.: (cont.)		
L.E. Jung & Wulff Co., Inc.	100%	New York
Knickerbocker Market Research Corp..	100%	New York
Schenley Affiliated Brands Corp. ...	100%	New York
Schenley Distillers, Inc.	100%	Delaware
Schenley Enterprises, Inc.	100%	Delaware
Schenley Export Corporation	100%	New York
Schenley Far East, Ltd.	100%	Japan
Schenley International Co. Inc.	100%	Delaware
Virgin Islands Rum Industries, Ltd..	100%	Virgin Islands
Subsidiaries of Knickerbocker Market Research Corp.:		
Merit House, Inc.	100%	Delaware
World Network, Inc.	100%	Delaware
Subsidiary of Schenley Distillers, Inc.:		
Tennessee Dickel Distilling Co.	100%	Tennessee
Subsidiaries of Anvil Brand, Incorporated:		
Almar Manufacturing Corp.	100%	Delaware
The Botany Shirt Company, Inc.	100%	Delaware
Beau Brummell Ties, Inc.	100%	New York
Friedman Marks, Inc.	100%	Delaware
Gilead Manufacturing Corporation ...	100%	Rhode Island
Wonderknit Corporation	100%	New York

(1) For information concerning Riklis Family Corporation and AFC, see "Introductory Note", Item 4 - "Security Ownership of Certain Beneficial Owners and Management" and Note 2 to Financial Statements.
(2) Rapid has approximately 100% of the voting power except for the election of directors where it has approximately 81% of such voting power. These shares are pledged to secure Rapid's guarantee of McCrory's bank indebtedness. See Note 6 to Financial Statements.
(3) All voting securities are pledged to secure Rapid's guarantee of McCrory's bank indebtedness. See Note 6 to Financial Statements.
(4) All voting securities are pledged to secure certain Rapid bank indebtedness. See Note 6 to Financial Statements.
(5) All voting securities are pledged to secure McCrory's bank indebtedness. See Note 6 to Financial Statements.
(6) Includes 37.4% owned by non-significant Canadian subsidiaries of Newberry.

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